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Royal Commission on Banking and Finance

Hearings
held at
Charlottetown

Vol.
21

Date.
June 7 1962



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Toronto, Ont.



June 7th, 1962.

ROYAL COMMISSION ON BANKING
AND FINANCE

Hearings held at Charlottetown,
Prince Edward Island, on Thursday,
June 7th, 1962.

MEMBERS

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman
Ex Officio

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia
Submission of the Government
of the Province of Prince
Edward Island
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H. A. Hampson

Mr. Gilles Meunier

Secretary

Joint Secretary



Nethercut & Young

Toronto, Ontario

Charlottetown,
Prince Edward Island,

June 7th, 1962.

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ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

Page No.

Submission of the Government
of the Province of Prince
Edward Island

2112



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AND FINANCE

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Chief Justice of Ontario
Toronto, Ontario - Chairman

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Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Hearings held at Charlottetown,
Prince Edward Island, on Thursday,
June 14th, 1962.

THE COMMISSION

The Honourable Bess Harris Foster
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Corporation Executive
Montreal, Quebec

Mr. W.A. MacKintosh
Vice-Chancellor
Queen's University
Kingston, Ontario



Charlottetown,
Prince Edward Island,
Thursday, June 7th, 1962.

SUBMISSION OF THE GOVERNMENT OF THE PROVINCE
OF PRINCE EDWARD ISLAND

APPEARANCES

Hon. M.J. McQuaid, Q.C. - Provincial Treasurer
Mr. W.E. Massey - Deputy Provincial
Treasurer

THE CHAIRMAN: We will now open the hearing
of the Royal Commission on Banking and Finance in
Prince Edward Island. We are very pleased to be in
Prince Edward Island in spite of the weather. We have
completed our tour of Western Canada and Central Canada
and have already met in New Brunswick.

We have all read your brief with great interest
and without further preliminaries would you now proceed?

You may wish to make some submission or do
you wish us to proceed immediately to questions?

HON. MR. McQUAID: Mr. Chairman, first of
all I understand the proceedings are very informal.
I was told I could remain seated.

THE CHAIRMAN: Oh yes, I should have mentioned
that.

HON. MR. McQUAID: I first of all want to
apologize for this confusion in time. We apparently
have too many times in this province and this, when we



1 get it mixed up with the times in Central Canada,
2 certainly gets quite confusing.

3 I wish too on behalf of the government --
4 unfortunately the Premier is not able to be here
5 this morning: He intended to be here but he is ill --
6 I wish to welcome you gentlemen to the province.
7 Unfortunately, the weather is not all that might be
8 desired but perhaps before you leave it will clear
9 up a bit and you will have the opportunity of seeing
10 Prince Edward Island at its best.

11 I do not know whether it is your wish that
12 I should proceed to read this brief in detail. I
13 do not presume that any of the proposals contained
14 in it are new. You have probably heard them stated
15 in some other form.

16 THE CHAIRMAN: Generally the briefs are not
17 read verbatim. Well, it depends on how you wish
18 to do it, really. Generally, there is a submission
19 of a summary of the brief. However, that is for
20 you to decide.

21 HON. MR. McQUAID: Well, the first portion
22 of the brief, of course, deals with our financing
23 requirements, our past financing and what we expect
24 in the immediate future. Part 2 of the brief is
25 a statement of our funded and unfunded debt. We
26 point out in the brief that two years ago we were
27 required to borrow on the United States market largely
28 because at that time we had an issue that could not
29 all be absorbed on the Canadian market, at least
30 that was the best advice we had, that it would be



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1 unwise for us to proceed to put the total issue on
2 the Canadian market and we had an opportunity to
3 sell \$4 million of it in the United States which we
4 did.

5 Since that time the credit position of the
6 province has improved somewhat and any issues that
7 we have put out since have always been able to be
8 absorbed on the Canadian market. We are working
9 and have worked since 1959 under an agency arrange-
10 ment whereby our fiscal agents advise us as to
11 when is the proper time to enter and just approximately
12 how much they think the Canadian market can absorb.

13 One of our suggestions in the brief is --
14 I think probably this suggestion has been made by
15 some of the other provinces or perhaps by all of
16 them -- that some sort of a co-ordinating system
17 be set up whereby the provinces, for example, will
18 know a little time in advance, that certain provinces
19 will know when other provinces may be coming with
20 an issue. We have found in one case in particular
21 we arranged for an issue and we followed almost on
22 the heels of an extra large issue from the province
23 of Ontario which, of course, makes it quite difficult
24 for us and had we known that the province of Ontario
25 was coming in (I think it was Ontario Hydro at the
26 time) we probably would have delayed until the
27 market would have been a little more favourable to
28 our bonds.

29 That is one of the matters that we suggest
30 is that if some sort of system could be worked out

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is that if some sort of system could be worked out



1 between the provinces and the dominion too whereby
2 these things could be co-ordinated in such a way
3 that there would not be two or three issues on the
4 market at once.

5 That suggestion appears on page 6 of the
6 brief, Co-ordinating Borrowing:

7 "(a) We have mentioned above the
8 difficulties which this Province found
9 in its search for money in 1959, which
10 resulted in the private issue in the United
11 States. This Province has also had
12 difficulties and will continue to have
13 the same difficulty in negotiating loans
14 at interest rates which are the same or
15 only slightly higher than the Central
16 Provinces. We feel there are several
17 reasons for this, some of which are that
18 the amount of the individual borrowings is
19 not as large as other provinces, nor as
20 attractive to investment dealers. Correspond-
21 ingly, the revenues of the Province, the
22 tax base and the population are considerably
23 smaller than other provinces. Then, again,
24 the Province is many miles away from the
25 financial centres of the nation and is not
26 nearly as well known to the general investing
27 public."

28 That was one of the difficulties we met in 1959 when
29 we attempted to put our first issue on the market.
30 We went to Montreal to see our bankers and some of

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we attempted to put our first issue on the market.
We went to Montreal to see our bankers and some of



1 the investment dealers and suprisingly enough
2 a lot of them just were not interested.

3 "At the same time, however, the
4 security for the borrowers is, to a large
5 extent, identical with the security of any
6 Canadian governmental issue."

7 We feel that our security is practically
8 the same as the security offered by any of the other
9 provinces:

10 "This security is, of course, the
11 people and the prosperity of Canada. We
12 know of no Province which has gone into
13 bankruptcy or which is presently in default."

14 (c) on page 7:

15 "We consider it not only sensible
16 but advisable to set up a similar co-operation
17 between the Federal and Provincial Govern-
18 ments. We believe such co-operation would,
19 to a great extent, counteract the considerable
20 disparity in borrowing rates, not only among
21 the Provinces themselves, but between the
22 Provinces and the Federal Government. It
23 seems to us perfectly feasible to set up
24 a central borrowing agency, which will borrow
25 funds at regular intervals ..."

26 This is one of the proposals we make --

27 "... which will borrow funds at regular
28 intervals in amounts not only estimated to
29 meet the current demands for funds, but amounts
30 which it is felt can be readily absorbed by

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1 the money markets. This central agency
2 should be administered by the Provincial
3 and Federal Governments, and might, perhaps,
4 be a separate division under the day-to-day
5 administration of the Bank of Canada. This
6 agency will in turn loan money to the
7 co-operating governments at a rate calculated
8 to recover the borrowing cost plus the
9 expense of issue and administration. Each
10 government authority would be required to
11 provide the agency with an estimate of their
12 fund requirements for the ensuing, say,
13 eighteen months. The government authorities
14 would then borrow from the central agency
15 as they require, up to, but not exceeding,
16 the amount of their estimate."

17 -- a setup with available funds in different provinces.

18 It is pointed out, of course, in the brief
19 that one way that we finance and we have found it quite
20 beneficial particularly in the past two or three years
21 is by way of deposit receipt. This is money that we
22 accept from our citizens, our individual citizens
23 on a 5 per cent interest basis with the understanding
24 that if the money is left in 90 days then the interest
25 will be payable. If it is taken out before the 90 days
26 then no interest is paid but if he keeps it in 90 days
27 it earns interest.

28 We increased our authority to borrow money
29 that way in the 1960 or 1961 sessions of the
30 Legislature and now we can borrow up to \$5 million or

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that way in the 1960 or 1961 sessions of the
Legislature and now we can borrow up to \$5 million or



1 accept deposit receipts up to \$5 million.

2 During the past year we increased our
3 deposit receipts by something over \$1 million. We
4 have not made any wholesale advertising effort to
5 get our people to invest in this type of security.
6 We have in sort of a general way made it more known
7 to the people that this service is available and we
8 find it very helpful.

9 There is no bond issued. The man is just
10 given his deposit receipt and when he brings that
11 deposit receipt back if he wishes to leave the money
12 there a new receipt is issued for the amount of the
13 deposit with accrued interest. These deposit receipts
14 are not accepted from large corporations or trust
15 companies; they are confined to individuals and
16 they not are negotiable.

17 We feel that in our borrowing dealings
18 during the past year particularly we have saved a
19 considerable amount of money by borrowing on short
20 term. We have found the short-term money market
21 readily available to us and, as the brief points out,
22 we have borrowed at interest rates as low as $3\frac{1}{2}$ per
23 cent by way of Treasury Bills over the period of 30, 60
24 and 90 days. We have also been able to renew these
25 Treasury Bills. Of course, it is a very peculiar thing,
26 the banks do not like it. When we do have to renew,
27 if we do have to renew, we would have to borrow the
28 money from the banks.

29 With respect to the borrowings of local
30 municipalities our practice is, of course, to guarantee

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1 their bonds. They seem to think -- although there is
2 some question in the minds of our auditors as to whether
3 or not this is correct -- the municipalities seem to
4 think if the bond is government guaranteed it can be
5 sold at a better price and a lower rate of interest
6 than if the government guarantee was not attached to
7 it. Of course this raises an indirect liability and
8 they are growing in this province at quite a substantial
9 rate but we feel that this is a service we have to
10 give to our municipalities to assist them in borrowing
11 for capital projects.

12 The same thing applies to our schools. We
13 guarantee school bonds if and when required.

14 That, Mr. Chairman, is a very rough explanation
15 of our brief. If you wish to hear anything further or
16 to ask any questions we would be glad to answer them.

17 COMMISSIONER MacKEEN: Mr. Chairman, Mr.
18 Harrold and I have a number of questions. After studying
19 the brief some of these questions Mr. McQuaid has
20 already touched on in summarizing the brief but he would
21 not mind going over them again perhaps for the
22 record just to have them settled.

23 In studying the brief, Mr. McQuaid, there
24 seems to be some indication that you have difficulties
25 at times in meeting any financial requirements by
26 funding. But Prince Edward Island has always enjoyed
27 a reputation of managing its financial affairs in a
28 very conservative way and the stringencies of money
29 on the market generally that obliged you to go to the
30 States in 1959 were general pretty well across the



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1 country. The amount was larger than your average
2 borrowing. \$4 million is a bigger amount than had
3 ever been sold before, am I right?

4 HON. MR. McQUAID: That is right, sir, yes.

5 COMMISSIONER MacKEEN: How did that come
6 about? Was it an accumulation of bank loans?

7 HON. MR. McQUAID: It was an accumulation
8 of bank borrowings for the most part. In the previous
9 government of the years previous to 1959 there were
10 some refunding issues go out and the government
11 of the day felt that it was advisable to wait --
12 interest rates appeared to be high, they apparently
13 felt it would be good judgment to wait and see if the
14 market would improve. We had had bank overdrafts
15 in excess of \$11 million and, of course, immediately
16 on a change in government I suppose the banks did not
17 know just what the situation might be and they more
18 or less insisted that these overdrafts should be
19 funded rather than carried as unfunded debt.

20 COMMISSIONER MacKEEN: Was there any
21 pressure from the banks to make repayment? They were
22 short of money themselves at that time.

23 HON. MR. McQUAID: We did have, sir, a
24 request from our chief creditor to try and get some
25 of these amounts for them.

26 COMMISSIONER MacKEEN: Are you contemplating
27 any large capital expenditures that you want to
28 anticipate?

29 HON. MR. McQUAID: No, our capital
30 expenditures are more or less stationary. They do
not vary much from year to year. It is generally the

HON. MR. McQUAID: That is right, sir, yes.

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HON. MR. McQUAID: No, sir, not at all.

It is generally the



1 building of roads. This year we embarked on a
2 fairly large school building programme in as much as
3 we have under construction two large vocational
4 schools, one in Charlottetown and one in Summerside.
5 The Charlottetown school is estimated to cost somewhere
6 in excess of \$1 million and the Summerside school
7 will be very, very close to that figure but apart
8 from these schools our capital expenditures remain
9 pretty well the same.

10 COMMISSIONER MacKEEN: Your net debt is
11 approximately \$23 million.

12 HON. MR. McQUAID: That was at the end of
13 ...

14 COMMISSIONER MacKEEN: The last fiscal year?

15 HON. MR. McQUAID: Yes, \$32, 850,000. That
16 is the estimated for the end of March, 1963.

17 COMMISSIONER MacKEEN: That is the gross?

18 HON. MR. McQUAID: No, that is net debt.

19 COMMISSIONER MacKEEN: After taking the
20 sinking fund off ?

21 HON. MR. McQUAID: No, the sinking fund is
22 not written off.

23 MR. MASSEY: That is the sinking fund plus
24 the unfunded debt.

25 COMMISSIONER MacKEEN: Plus the unfunded ?

26 MR. MASSEY: Yes.

27 COMMISSIONER MacKEEN: Current?

28 MR. MASSEY: Yes.

29 COMMISSIONER MacKEEN: The unfunded debt would
30 include deposit receipts?



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MR. MACKEN: That is the sinking fund plus

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COMMISSIONER MACKEN: Plus the undedged?

COMMISSIONER MACKEN: Current?

MR. MACKEN: Yes.

COMMISSIONER MACKEN: The undedged debt would



1 MR. MASSEY: This is as of March this year,
2 the gross funded debt was \$29,950,000 and sinking
3 funds were roughly \$4,900,000 leaving net funded
4 debt of \$25 million.

5 COMMISSIONER MacKEEN: \$25 million or
6 \$24 million, yes.

7 MR. MASSEY: Well, I dropped the odd figures.

8 COMMISSIONER MacKEEN: That does not cause
9 any concern. On a per capita basis there are plenty
10 of resources in this province.

11 HON. MR. McQUAID: Yes. We may be too
12 cautious but we have the feeling that perhaps the
13 time is not too far away when we may run into some
14 difficulty if we keep on going into debt year after
15 year after year. Our aim has been, of course, to try
16 and get as close to a satisfactory balanced budget
17 as possible. In 1959 and 1960 we were successful.
18 Last year we were not by reason of an unprecedented
19 snowfall.

20 COMMISSIONER MacKEEN: In 1959 your current
21 bank loans were higher than normal?

22 HON. MR. McQUAID: Yes, they were.

23 COMMISSIONER MacKEEN: Well, in that situation
24 it was difficult for the province of Prince Edward
25 Island to borrow, like the other provinces at that
26 time because institutions were not increasing their
27 portfolios. On the question of the deposit of receipt
28 regulations, could we have filed a copy of the regulations
29 with the Commission?

30 HON. MR. McQUAID: Yes. We have a Deposit



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COMMISSIONER MACKENZIE: In 1959 your current

bank loans were higher than normal?

HON. MR. McQUAID: Yes, they were.

COMMISSIONER MACKENZIE: Well, in that situation

it was difficult for the province of Prince Edward Island to borrow, like the other provinces at that time because institutions were not increasing their portfolios. On the question of the deposit of receipts regulations, could we have filed a copy of the regulations with the Commission?



1 Receipt Act.

2 COMMISSIONER MacKEEN: Yes, if we could have
3 that, I think it would be of interest.

4 MR. MASSEY: We can give you a copy of the
5 Act taken from the statute books.

6 COMMISSIONER MacKEEN: Are these deposits
7 repayable on demand, or are they for a term?

8 HON. MR. McQUAID: Payable on demand.

9 COMMISSIONER MacKEEN: You mentioned \$5
10 million.

11 HON. MR. McQUAID: That is the amount beyond
12 which we cannot take -- once our deposit receipts
13 reach the \$5 million mark we cannot accept any more
14 unless we get further borrowing authority under statute.

15 COMMISSIONER MacKEEN: How much money have
16 you out in that way at the present time?

17 MR. MASSEY: About \$4 million, roughly --
18 \$4,100,000.

19 COMMISSIONER MacKEEN: And that money being
20 on demand, if there were any extraordinary withdrawals,
21 or if we ran into money stringency again, I suppose
22 you have arranged bank credit?

23 HON. MR. McQUAID: Yes, we have to arrange
24 bank credits -- we have that understanding.

25 COMMISSIONER MacKEEN: You have that under-
26 standing with the bank?

27 HON. MR. McQUAID: Yes.

28 COMMISSIONER MacKEEN: Of course, even if
29 you have credit arrangements, if the banks haven't
30 got the money available under stringency conditions, they

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COMMISSIONER MACKEN: You have that under-

standing with the banks?

HON. MR. McQUAID: Yes.

COMMISSIONER MACKEN: Of course, even if



1 might not make it available to you, so that I presume
2 you are keeping a careful watch on the amount you
3 will have out in that way?

4 HON. MR. McQUAID: We realize, of course,
5 there is a danger there. That is the reason we never
6 accept large amounts from any one individual or large
7 deposits from trust companies. We keep them small
8 so that if two or three individuals wish to withdraw
9 it is not too big a strain on us.

10 COMMISSIONER LEMAN: Do you have statistics
11 that show the fluctuation of the turnover in deposits?

12 MR. MASSEY: I will give you the figures
13 from 1951 up to March of this year.

14 COMMISSIONER BROWN: On the redemption of
15 the withdrawals.

16 MR. MASSEY: We have it at the first of April,
17 1960 -- we had \$1 million. Well, I know the figure
18 the next April, or the end of March was -- I can't
19 tell you how much came in or how much went out without
20 going through the accounts.

21 THE CHAIRMAN: It has been steadily growing,
22 hasn't it -- the net balance?

23 MR. MASSEY: For instance, on March 31st,
24 1961 we had \$3,459,000; at the end of March of this
25 year we had \$4,100,000.

26 COMMISSIONER MacKEEN: This is very similar
27 to parity bonds?

28 HON. MR. McQUAID: Practically the same,
29 yes.

30 COMMISSIONER MacKEEN: Have you considered



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accept large amounts from any one individual or large
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COMMISSIONER LEMAN: Do you have statistics
that show the fluctuation of the turnover in deposits?
MR. MASSY: I will give you the figures
from 1921 up to March of this year.

COMMISSIONER BROWN: On the redemption of
the withdrawals,
MR. MASSY: We have it at the first of April.
1920 -- we had \$1 million. Well, I know the figure
the next April, or the end of March was -- I can't
tell you how much came in or how much went out without
going through the accounts.

THE CHAIRMAN: It has been steadily growing.
Hasn't it -- the net balance?

MR. MASSY: For instance, on March 31st,
1921 we had \$3,429,000; at the end of March of this
year we had \$4,100,000.

COMMISSIONER MCKEN: This is very similar
to parity bonds?

HON. MR. McQUAID: Practically the same.

COMMISSIONER MCKEN: Have you considered



1 issuing parity bonds in place of these?

2 HON. MR. McQUAID: Personally I have turned
3 it over in my mind but we haven't made any decision
4 on it.

5 COMMISSIONER MacKEEN: You sell these
6 direct?

7 HON. MR. McQUAID: No, actually we don't
8 sell them. We wait for the people to come in.

9 COMMISSIONER MacKEEN: You are pretty
10 nearly up to the ...?

11 THE HON. Mr. McQUAID: We are pretty nearly
12 up to our \$5 million, and if we want to go beyond that
13 we have to have the Act amended.

14 MR. MASSEY: They cannot write cheques on
15 it.

16 COMMISSIONER MacKEEN: Could you tell us
17 roughly how many depositors you have?

18 MR. MASSEY: The last figure I have would
19 be a year ago and there ^{were} /somewhere around -- between
20 700 and 800, but a lot are awfully small. Some
21 would go up around \$5,000 or \$6,000 or \$10,000.

22 COMMISSIONER MacKEEN: What is the maximum
23 you take?

24 MR. MASSEY: There is no maximum but we try
25 to keep it -- unless it is an institution: Say we
26 have a fire and one of our institutions burns down,
27 or a church, and they collect the insurance: While
28 they are building they put the insurance money on
29 deposit with us and when the time comes to pay the
30 contractor they withdraw the money and their interest.



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1 COMMISSIONER MacKEEN: You are paying 5
2 per cent on that?

3 MR. MASSEY: Yes.

4 COMMISSIONER MacKEEN: What is the highest
5 you have paid?

6 MR. MASSEY: That is the highest. The lowest
7 was $2\frac{1}{2}$ on May 31st, 1947, and then 3 in 1957; $3\frac{1}{2}$ in
8 1952, $3\frac{1}{4}$ in 1954; 4 in 1956, and 5 starts January
9 1st, 1960.

10 COMMISSIONER MacKEEN: Do you take any
11 term money at all in your day-to-day money?

12 MR. MASSEY: No.

13 COMMISSIONER MacKEEN: All demand?

14 MR. MASSEY: Yes.

15 COMMISSIONER MacKEEN: You mentioned you
16 had fiscal agents: That is from one of the dealer
17 houses, is it?

18 HON. MR. McQUAID: Yes, sir.

19 COMMISSIONER MacKEEN: You don't call for
20 tenders any more?

21 HON. MR. McQUAID: No, we haven't called
22 for tenders in this province since 1959. Previous
23 to that the province did work on a tender basis.

24 COMMISSIONER MacKEEN: Do the fiscal agents
25 handle American financing for you too?

26 HON. MR. McQUAID: No, our fiscal agency
27 didn't handle American purchasing. At that time, in
28 1959, when we sold the American issue, we actually
29 didn't have a fiscal agency established. We didn't
30 have time to get it established. We took office in

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1 September, 1959 and found that by the last of
2 September that we didn't have time to establish it,
3 but we established it immediately after.

4 COMMISSIONER MacKEEN: You have made mention
5 of a group of provinces banding together to do their
6 financing: That is the four Atlantic provinces, for
7 instance?

8 HON. MR. McQUAID: Yes.

9 COMMISSIONER MacKEEN: Would you enlarge
10 a little on that, Mr. McQuaid: Just how do you think
11 it could be done?

12 HON. MR. McQUAID: What we had chiefly in
13 mind was that if the four Atlantic provinces could
14 get together and say, "Here are our requirements
15 for the coming year", Newfoundland may say that they
16 want \$ 15 million, and if there was some arrangement
17 whereby these provinces could go on the market at
18 different times so that one would not be following
19 too closely on another -- and that applies particularly
20 to the province of Ontario, as I mentioned previously.
21 It is very difficult for us to sell our bonds if
22 we come on the heels of a large issue from Ontario.

23 THE CHAIRMAN: Wasn't that problem discussed
24 at a meeting not very long ago of the provinces --
25 or of the Premiers of the provinces?

26 HON. MR. McQUAID: Yes sir, last year.

27 THE CHAIRMAN: This problem was discussed
28 then?

29 HON. MR. McQUAID: That is right. There
30 was no action taken on it yet, except I believe the

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no action taken on it yet, except I believe the



1 province of New Brunswick and possibly Nova Scotia --
2 did they not join up not long ago?

3 COMMISSIONER MacKEEN: In New Brunswick
4 they mentioned it, but I don't think it was ever
5 formed.

6 COMMISSIONER MACKINTOSH: They stated they
7 had undertaken to keep each other informed.

8 MR. MASSEY: Yes, of borrowing and the
9 time of issue so they would not clash with each other.

10 THE CHAIRMAN: Have they done that, or is
11 it too soon to know?

12 MR. MASSEY: No, they haven't done it yet.

13 COMMISSIONER MacKEEN: At a time of very
14 great money stringency -- 1932 and 1933 -- under the
15 Department of Finance -- and there was no Bank of
16 Canada at that time -- there was formed what was
17 known as the Orderly Marketing Board. The provinces
18 submitted their requirements to this board and issues
19 were made to the amount the market would absorb by
20 each province. This was headed by the leading financial
21 houses and some of the banks, carried on for about
22 two years and then jealousies crept into it and
23 other difficulties. The borrowers didn't think they
24 were getting as good a price as some -- there was
25 more competition in it and it fell to pieces for that
26 reason. But, it would be something along those lines
27 that you have in mind?

28 HON. MR. McQUAID: Did they find it worked
29 satisfactorily while it did work?

30 COMMISSIONER MacKEEN: It did work satisfactorily



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COMMISSIONER MACKENZIE: It did work satisfactorily.



1 for about a year and a half, but at the same time
2 there was no other recourse, but once money started
3 to ease up, then other dealers who were not in
4 this big group started to bid and they were willing
5 to take a little lower spread and they were getting
6 the bonds, and that is what caused the breakup.
7 Wouldn't it be possible for the provinces instead
8 of forming a separate group to work with the Bank
9 of Canada in such a way they could advise the Bank
10 as to what their requirements might be on an annual
11 basis and get advice from them so there would be
12 more order in the times at which issues were made
13 to the public?

14 HON. MR. McQUAID: That would be with a
15 view of not conflicting with Dominion of Canada issues?

16 COMMISSIONER MacKEEN: Yes, and you also
17 say you would not want to go out on the day after
18 Ontario had had an issue.

19 HON. MR. McQUAID: Yes. I think the Bank
20 of Canada could be a sort of clearing house for an
21 arrangement of that kind if they would undertake
22 it.

23 COMMISSIONER MacKEEN: They haven't shown
24 much desire to interfere in provincial affairs, but
25 possibly that might solve the problem if it were
26 put up to them.

27 HON. MR. McQUAID: Yes.

28 COMMISSIONER MacKEEN: Your borrowings
29 are mainly what is known as social borrowing -- that
30 is, for roads and schools?

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HON. MR. McQUAID: Yes.



1 HON. MR. McQUAID: Yes.

2 COMMISSIONER MacKEEN: How about rural
3 electrification?

4 HON. MR. McQUAID: No, we haven't had
5 to borrow any for rural electrification. We have an
6 arrangement with Maritime Electric whereby we finance
7 the construction of the lines. Of course, they repay
8 us over a period of years.

9 COMMISSIONER MacKEEN: How do you finance
10 that in the first instance?

11 HON. MR. McQUAID: It is financed out of
12 the consolidated fund, and if that helps to build
13 up our bank overdraft I suppose indirectly the rural
14 electrification is a cause of bond borrowing.

15 COMMISSIONER MacKEEN: Well, it has been
16 pretty extensive, hasn't it?

17 HON. MR. McQUAID: Yes, it has been.

18 MR. MASSEY: But it is over a period of
19 years.

20 COMMISSIONER MacKEEN: \$3 or 4 million?

21 MR. MASSEY: It could be. I was thinking
22 in terms of annual expenditures that we would spend.
23 Some years it would run to \$400,000, and then another
24 year it may only run to \$275,000 to \$300,000, and
25 it could up to -- well, I haven't got the figures.

26 COMMISSIONER MacKEEN: Do the customers
27 pay your carrying charges on that?

28 MR. MASSEY: No.

29 COMMISSIONER MacKEEN: It is not self-
30 sustaining then, but it is, I suppose, self-liquidating?

HON. MR. McQUAID: Yes.

COMMISSIONER MACKEN: Now about annual

to borrow any for rural electrification. We have no

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COMMISSIONER MACKEN: It is not self-



1 MR. MASSEY: Self-liquidating.

2 HON. MR. McQUAID: We have it pretty well
3 extended now: We started on a policy of five
4 customers to the mile, and now we are down to four
5 to the mile, and now three to the mile, and we probably
6 can extend it to two to the mile. Whether we can
7 economically go below that figure is the question.
8 However, they still want electrification.

9 COMMISSIONER LEMAN: One-half to the mile?

10 HON. MR. McQUAID: Yes.

11 MR. MASSEY: That past year, at the end of
12 March we spent \$337,000. The year before we spent
13 \$390,000. This year we expect to spend around
14 \$275,000. One year we had a freak storm in January
15 and it took all the wires from west of the Hunter
16 River and that ran us into somewhere around \$500,000
17 to replace that.

18 COMMISSIONER MacKEEN: And that just came
19 out of general funds?

20 MR. MASSEY: Yes, out of general funds.

21 COMMISSIONER MacKEEN: You just left that
22 large expenditure in there as part of your funded
23 debt without any ...?

24 MR. MASSEY: It is part of the consolidated
25 revenue fund.

26 HON. MR. McQUAID: When it is funded it is
27 not earmarked as rural electrification.

28 MR. MASSEY: We don't borrow it for rural
29 electrification. We just borrow it for general revenues
30 of the province to replace overdraft.

FOR MR. McQUAID: We have it pretty well

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MR. McQUAID: Yes.

MR. McQUAID: That was your estimate of the cost of

which we spent \$337,000. The year before we spent
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\$275,000. One year we had a freak storm in January
and it took all the wires from west of the
River, and that was the first time we had a
to replace them.

COMMISSIONER McQUAID: And that

one of general policy

MR. McQUAID: Yes, out of general policy.

COMMISSIONER McQUAID: You just tell me

large expenditure is made as part of your

cost with only...

MR. McQUAID: It is part of the consolidated

MR. McQUAID: When it is paid in

not considered as a special election.

MR. McQUAID: We shall know it for

election. We just know it for

in the future to replace overhead.



1 COMMISSIONER MacKEEN: It is a little
2 different type of loan or expenditure in that it is
3 self-liquidating. It is different from a bridge or
4 a school in that respect, that eventually you get it
5 paid back.

6 MR. MASSEY: Yes.

7 HON. MR. McQUAID: Yes, we really don't
8 count it -- while it is a provincial government
9 project, in the final analysis it is a project of the
10 Maritime Electric because they pay it back.

11 COMMISSIONER MacKEEN: To get back to the
12 United States loan of 1959: That is payable in
13 United States or Canadian funds, or both?

14 HON. MR. McQUAID: No; United States.

15 COMMISSIONER MacKEEN: Principal and
16 interest?

17 HON. MR. McQUAID: Yes.

18 COMMISSIONER MacKEEN: You mention in your
19 brief the fact that the province has been paying more
20 than some corporate bonds are selling at. Don't you
21 think that is due to the fact that there are comparatively
22 few Prince Edward Island bonds outstanding. When
23 an institution is going into the market to build up
24 their portfolio, marketability is sometimes more
25 important to them than the yield, and it may be that
26 they prefer to have, say, Bell Telephone bonds which
27 is in the hundreds of millions outstanding rather than
28 the generally less than two million outstanding of
29 your bonds?

30 HON. MR. McQUAID: In other words, the Bell

COMMISSIONER MACKENZIE: It is a little different type of loan on concessional basis in that it is self-liquidating. It is different from a bridge loan school in that respect, that eventually you get it

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HON. MR. McQUAID: I think words are



1 Telephone bonds would be more saleable in the event
2 they had to be liquidated?

3 COMMISSIONER MacKEEN: Well, they command
4 a wider margin: Is that your opinion?

5 HON. MR. McQUAID: I would think so, yes.

6 COMMISSIONER MacKEEN: I would think that
7 would be the reason for it.

8 HON. MR. McQUAID: Yes.

9 COMMISSIONER MacKEEN: You mention Crown
10 Corporations and the Public Utility Commission is
11 included as a Crown Corporation. Does it own property?
12 Has it assets and liabilities?

13 HON. MR. McQUAID: The Public Utilities
14 Commission?

15 COMMISSIONER MacKEEN: Yes, it is listed in your
16 brief as one of the Crown companies.

17 HON. MR. McQUAID: No, they don't own
18 anything, as far as I know.

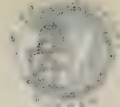
19 COMMISSIONER MacKEEN: They are usually just
20 a regulatory body.

21 HON. MR. McQUAID: It is actually only a
22 commission set up to take care of all our public
23 utilities, but they don't own property.

24 COMMISSIONER MACKINTOSH: Do they operate
25 the public utilities, or do they just regulate them?

26 HON. MR. McQUAID: No, they are more
27 regulatory. In fact, I can't think of any case where
28 they operate; they just regulate it.

29 COMMISSIONER MacKEEN: The province guarantees
30 the municipalities: That does not apply to either Summerside



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HON. MR. McQUAID: No, they are more

regulatory. In fact, I can't think of any case where

they operate; they just regulate it.

COMMISSIONER MACKEN: The province guarantees

the municipalities: That does not apply to either



1 or Charlottetown, does it?

2 HON. MR. McQUAID: I am not aware of them
3 having been asked to guarantee their bonds.

4 COMMISSIONER MacKEEN: The small bearer
5 bonds the school sections bring out, etc., I suppose
6 they enjoy local markets principally?

7 HON. MR. McQUAID: Practically all local
8 markets, yes.

9 COMMISSIONER MacKEEN: Are they somewhat
10 about the same rate as the provinces's?

11 HON. MR. McQUAID: Just about.

12 COMMISSIONER MacKEEN: There are quite a
13 number of small amounts in the list. You mentioned
14 the Industrial Development Bank. Has that been active
15 here?

16 HON. MR. McQUAID: Well, we find that during
17 the past year it has been more active than it previously
18 was. Our industries that approach them have apparently
19 been more successful in the last year than they have
20 been in the past.

21 COMMISSIONER MacKEEN: Do your smaller
22 industries have difficulty in raising funds?

23 HON. MR. McQUAID: Quite often, sir, yes.
24 A very small industry, a man or two or three men who
25 want to start, we will say, a sawmill on a fairly
26 large scale perhaps do not need too much money --
27 \$10,000, \$15,000 and they find, of course, that it is
28 not feasible for them to go to the Industrial Develop-
29 ment Bank and they come to us. In most cases with
30 amounts like that we loan the money through the

COMMISSIONER MACKEN: The small dealer
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\$10,000, \$12,000 and they find, of course, that it is
not feasible for them to go to the Industrial Develop-
ment Bank and they come to us. In most cases with
amounts like that we loan the money through the



1 Prince Edward Island Industrial Corporation.

2 COMMISSIONER MacKEEN: You have a corporation
3 set up for that purpose?

4 HON. MR. McQUAID: Yes, we have a corporation
5 set up, the Prince Edward Island Industrial Corporation.
6 This has financed the new frosted food plant just
7 outside the city and more recently the Seeman Brothers
8 Company.

9 COMMISSIONER MacKEEN: Has your experience
10 been satisfactory with repayments of loans?

11 HON. MR. McQUAID: Yes, so far. Of course
12 Seeman's just started last year but the frozen food
13 plant has been very satisfactory.

14 COMMISSIONER MacKEEN: Do you give it to
15 fishermen for boats etc.?

16 HON. MR. McQUAID: Yes, these loans are
17 in reasonably good shape.

18 COMMISSIONER MacKEEN: Canning plants?

19 HON. MR. McQUAID: Canning plants, yes.
20 Our experience with canning plants has been very good.
21 We had one that was not quite so good but the others
22 turned out very well.

23 COMMISSIONER MacKEEN: You mention in the
24 brief a 6 per cent ceiling on bank loans. That is
25 a matter that has cropped up as we have gone across
26 Canada pretty consistently, at least where we have
27 held hearings. I would like to hear your comments as
28 to whether that should be maintained or varied.

29 HON. MR. McQUAID: Well, we naturally feel,
30 of course, that it should not go beyond the 6 per cent



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HON. MR. McQUAID: Well, we naturally feel,

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set up, the Prince Edward Island Industrial Corporation.
HON. MR. McQUAID: Yes, we have a corporation
set up for that purpose?

COMMISSIONER MACKENZIE: You have a corporation



1 figure. As we suggested in our brief the banks are
2 possibly -- it always seems strange to us that we
3 can go to a trust company and get pretty nearly as
4 much money as we require. As a matter of fact, they
5 come to us and ask us to take this short-term money,
6 \$30,000, \$40,000 at rates as low as $3\frac{1}{2}$ per cent. Now,
7 it seems peculiar that they can get this money --
8 granted it is only for a short term but there is enough
9 of it to keep us going and yet if we go to the banks
10 we have to pay $5\frac{1}{2}$ per cent.

11 COMMISSIONER MacKEEN: Have you tried the
12 banks to see whether they would give 90 days or 180
13 days?

14 HON. MR. McQUAID: Yes.

15 COMMISSIONER MacKEEN: They won't do it.

16 THE CHAIRMAN: Well, at any rate you have
17 resort to the trust company.

18 MR. MASSEY: Well, the bank will give money
19 on a treasury note. They just charge the same rate
20 as they would on an overdraft if the overdraft is
21 worked out on the average balance. As of June 1st,
22 1961 the rate was $5\frac{1}{2}$ per cent on both overdraft and
23 treasury notes and I think that is the same rate that
24 applies all through Canada.

25 HON. MR. McQUAID: But our auditor has
26 approached the banks for cheaper money even on short
27 term.

28 COMMISSIONER MacKEEN: Have you considered
29 the possible objection to statutory top limit, such
30 as the 6 per cent limit that exists in that if that were



[Faint, mostly illegible text at the top of the page, possibly a header or introductory paragraph.]

\$30,000, \$40,000 at rates as low as 3 1/2 per cent. Now, it seems peculiar that they can get this money -- granted it is only for a short term but there is enough of it to keep us going and yet if we go to the banks we have to pay 5 per cent.

COMMISSIONER MACKEN: Have you tried the banks to see whether they would give 90 days or 180

HON. MR. McQUAID: Yes.
COMMISSIONER MACKEN: They won't do it.
THE CHAIRMAN: Well, at any rate you have

MR. MASSEY: Well, the bank will give money on a treasury note. They just charge the same as they would on an overdraft if the overdraft is worked out on the average balance. As of June 1901 the rate was 5 per cent on both overdraft and treasury notes and I think that is the same rate that applies all through Canada.

HON. MR. McQUAID: But our auditor has approached the banks for cheaper money even on short term.

the possible objection to statutory top limit, there as the 6 per cent limit that exists in that if that were



1 not there it would be possible to restrict credit
2 at times such as in 1959 in some parts of the country
3 where they were getting into a highly inflationary
4 state by increasing the rate on bank loans rather
5 than attempting to ration money which proved very
6 unsatisfactory?

7 HON. MR. McQUAID: Well, we do not suggest
8 that the limit should be removed but our suggestion
9 is that it should be no higher than 6 per cent.

10 COMMISSIONER MacKEEN: In British banks,
11 for instance, there is no limit on it and when they
12 start to exceed what they consider a reasonable state
13 of activity it is simply up to the bank rate and people
14 have to pay more for their money and they are apt
15 to be a little more cautious.

16 HON. MR. McQUAID: That works.

17 COMMISSIONER MacKEEN: That works very
18 well.

19 HON. MR. McQUAID: It does not work apparently
20 in the case of an individual who needs money.
21 Apparently there are a lot of people who cannot get
22 money at the bank but they are prepared to go to a
23 finance company and get it at a higher rate, a consider-
24 ably higher rate. Apparently it does not deter the
25 individual.

26 COMMISSIONER MacKEEN: The point I am making
27 is it might be better to be able to get it from the
28 bank at $6\frac{1}{2}$ per cent or 7 per cent than not to be able
29 to get it at all if the 6 per cent limit was maintained.

30 HON. MR. McQUAID: That is true.

at times such as in 1959 in some parts of the country where they were getting into a highly inflationary state by increasing the rate on bank loans rather than attempting to ration money which proved very

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that the limit should be removed but our suggestion

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in the case of an individual who needs money. Apparently there are a lot of people who cannot get money at the bank but they are prepared to go to a finance company and get it at a higher rate, a considerably higher rate. Apparently it does not deter the

COMMISSIONER MACKENZIE: The point I am making

is it might be better to be able to get it from the bank at 6 per cent or 7 per cent than not to be able to get it at all if the 6 per cent limit was maintained.



1 THE CHAIRMAN: With a finance company you
2 pay more than $6\frac{1}{2}$ per cent as a rule.

3 COMMISSIONER MacKEEN: The currency exchange
4 which you mention as an addition to the banking
5 system, just how would that work, Mr. McQuaid?

6 HON. MR. McQUAID: What page is that on?

7 THE SECRETARY: 14.

8 MR. MASSEY: Is this the section "These
9 currency exchanges could be managed under the direction
10 of the Canadian Bankers Association and would be a
11 co-operative effort of all banking houses."?

12 COMMISSIONER MacKEEN: That is the one.

13 HON. MR. McQUAID: This is a suggestion of
14 our auditor that these suburban currency exchanges
15 be set up as an alternative to, as he says, a bank
16 on every corner like a busy city with a view to keeping
17 down overhead. These exchanges would be managed under
18 the direction of the Canadian Bankers Association and
19 your question is how should this operate?

20 COMMISSIONER MacKEEN: Yes.

21 HON. MR. McQUAID: Well, I am afraid, sir,
22 we may have to wait for the answer to that until the
23 auditor comes. He is coming this afternoon or later
24 this morning.

25 COMMISSIONER MacKEEN: Well, I will reserve
26 that question for him then.

27 COMMISSIONER HARROLD: I have one or two
28 questions, Mr. Chairman. Mr. McQuaid, on page 3 I
29 believe you say in connection with future trends in
30 financing that you have no significant requirements

which you mention as an addition to the banking system. Just how would that work, Mr. McQuaid?
HON. MR. McQUAID: What page is that on?

MR. MASHBY: Is this the section "There currency exchanges could be managed under the direction of the Canadian Bankers Association and would be a co-operative effort of all banking houses?"
COMMISSIONER MASHBY: That is the one.
HON. MR. McQUAID: That is a suggestion of

our auditor that these Canadian currency exchanges be set up as an alternative to, as he says, a bank on every corner. This is a busy city with a view to keeping down overhead. These exchanges would be managed under the direction of the Canadian Bankers Association. Your question is how should it be operated?

COMMISSIONER MASHBY: Yes.
HON. MR. McQUAID: Well, I am afraid, sir, we may have to wait for the answer to that until the auditor comes. He is coming this afternoon or later this morning.

That question for him then.
COMMISSIONER HARPOD: I have one or two questions, Mr. Chairman. Mr. McQuaid, on page 3 I believe you are in connection with future trends in



1 for capital funds in the near future with the exception
2 of probably an issue to cover an erection of a
3 government office building. In other words, that
4 paragraph seems to say that you do not anticipate
5 any increase over what you have been doing in the past
6 few years?

7 HON. MR. QU Aid: We are trying to operate
8 in such a way that we won't have to borrow for anything
9 other than refunding purposes.

10 This new government office building, of
11 course, is going to be built by a Crown Corporation,
12 a corporation set up by the government and the
13 corporation itself will do the borrowing. It will
14 be guaranteed by the government.

15 COMMISSIONER HARROLD: Some of the other
16 provincial governments have expressed concern about
17 how their budgets have been increasing and that does
18 not seem to be the case down here in Prince Edward
19 Island. In New Brunswick it was mentioned that shared
20 cost programmes by the Dominion Government were giving
21 them concern in that they had had to match the
22 Federal Government's share and that was in the
23 provincial budget but you do not find the same thing
24 here?

25 HON. MR. McQU Aid: Our expenditures, of
26 course, are increasing but our revenues are increasing
27 too. Probably we fare better than some of the other
28 provinces in so far as the new fiscal system in Ottawa
29 is concerned and there will be considerable increase
30 in revenues over the next four years to this province



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any increase over what you have been doing in the past
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HON. MR. GUNN: We are trying to operate
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course, are ...
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provinces in so far as the new fiscal system in Ottawa
is concerned and there will be considerable increase
in revenues over the next four years to this province



1 averaging something in excess of \$1 million a year
2 over the four-year period.

3 COMMISSIONER HARROLD: So you feel you are
4 in fairly good shape as far as the future is concerned?

5 HON. MR. McQUAID: Well, unless we have
6 some very unforeseen capital requirements -- the
7 construction of schools, of course, is quite a problem
8 in this province. Our schools are of the best and
9 it has been the policy of the previous government
10 for some considerable years and this government too
11 to improve school facilities. Our school population
12 is increasing -- I don't know why -- our actual
13 population is not increasing. We still hover around
14 100,000 but more children are now taking advantage of
15 schools and are going to school. I do not think there
16 is any question about that. The school accommodation
17 is taxed. You build a school and in a year's time
18 you have to build a piece onto it.

19 THE CHAIRMAN: Would that be chiefly in the
20 primary or secondary schools?

21 HON. MR. McQUAID: Well, in schools from
22 Grade 1 to Grade 8. Then, of course, we have the
23 regional schools which take care of Grades 8 to 12
24 but there has been a large increase in the school
25 population in the province in the past few years.

26 COMMISSIONER HARROLD: In section 9, page 9,
27 you make some comments on federal monetary policy here.
28 You suggest here that the broad monetary policy of the
29 Federal Government has not had very much effect on
30 your government spending and borrowing plans and yet

over the 100-year period.

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schools and are going to school. I do not think there

is any question about that. The school accommodation

is there. You build a school and in a year's time

you have to build a place for it.

THE CHAIRMAN: Would that be wholly in the

vicinity of secondary schools?

HON. MR. McQUINN: Well, in schools from

Grade 1 to Grade 8. Then, of course, we have the

regional schools which take care of Grades 8 to 12

but there has been a large increase in the school

population in the province in the last few years.

COMMISSIONER HARRISON: In section 5, page 2,

you have some comments on federal secondary policy here.

You comment here that the federal secondary policy of the

federal government has not had very much effect on

your government spending and borrowing plans and yet



1 later on in that same section you suggest that it
2 has an indirect effect.

3 HON. MR. McQUAID: Yes.

4 COMMISSIONER HARROLD: Do you feel that this
5 has created some difficulty for you in getting funds
6 and that you have changed your programmes because of
7 lack of funds as a result of monetary policy as outlined
8 in this paragraph?

9 HON. MR. McQUAID: No, I would not say that
10 we have changed our policy by reason of lack of
11 availability of funds.

12 COMMISSIONER HARROLD: Not your policy but
13 your programmes. Have you deferred any programmes
14 because of lack of funds?

15 HON. MR. McQUAID: No programme that we
16 would consider essential to the welfare of our people.

17 COMMISSIONER HARROLD: Turning to page 15,
18 I believe it is, and Section (b) you say that you
19 have the Prince Edward Island Industrial Corporation,
20 the Industrial Establishment Promotions Board, the
21 Tourist Accommodation Loan Board, the Farm Establishment
22 Board and the Fishermen's Loan Board. As a provincial
23 government brief you deal mainly with your own affairs
24 but some of the other briefs have made comments on
25 the industry as such -- agriculture, fishing and you
26 suggest you have the three main industries here. Do
27 you feel that agriculture, for instance, is taken care
28 of in the way of funds, loans, credit?

29 HON. MR. McQUAID: I think between our
30 provincial Farm Establishment Board and our Farm Credit

COMMISSIONER TARBELL: Do you feel that this

has caused some difficulty for you in getting funds

and that you have changed your program because of

lack of funds as a result of monetary policy as outlined

MR. TARBELL: No, I would not say that

we have changed our policy by reason of lack of

availability of funds.

COMMISSIONER TARBELL: Now your policy but

your program, have you deferred any program

because of lack of funds?

MR. TARBELL: No program that we

would consider essential to the welfare of our people.

I believe in it, and Section (c) you say that you

have the Federal Reserve Bank Industrial Corporation,

the Industrial National Development Board, the

Board and the Warrenton's Loan Board. At a provisional

government board you deal mainly with your own affairs

our name of the other funds have more comments on

the industry as a whole - agricultural, financial and

the industry as a whole - agricultural, financial and

you feel that agricultural, for instance, is taken care

of in the way of capital, loans, credit?

MR. TARBELL: I think between our



1 Corporation the requirements of our farmers are being
2 pretty well looked after. Our Farm Establishment
3 Board is primarily to assist young men who are
4 starting a farm. The Farm Credit Corporation's
5 policy apparently is to assist those who are established
6 farmers.

7 We try to confine our operations under the
8 Farm Establishment Board to those men who want money
9 to set themselves up in farming. We try to steer
10 away from loaning money to the farmer who wants the
11 money, for example, for a consolidation of debts.
12 We feel that that is more the job of the Farm Credit
13 Corporation and we try to direct him there. We
14 are having complaints from some of our farmers that the
15 Farm Credit Corporation is becoming increasingly
16 disinterested in the small borrower. They tell us
17 if a man only wants \$1,500 or \$2,000 in many cases
18 it is not worth his while going to the Farm Credit
19 Corporation because they won't accept his application.

20 COMMISSIONER HARROLD: You suggest this has
21 been set up within the last ten years?

22 HON. MR. McQUAID: Our Farm Establishment
23 Board, yes. It has only been operating here for four
24 years.

25 COMMISSIONER HARROLD: And how much have
26 you out now and at what rates of interest?

27 HON. MR. McQUAID: The rate of interest is
28 $5\frac{1}{2}$ per cent. We have the figure here. Mr. Massey in
29 the Farm Establishment Board we have outstanding at the
30 the end of March \$351,439. and at the end of March 1939.



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 20 been set up within the last ten years?

21 Found, yes. It has only been operating here for four
 22 years.

23 COMMISSIONER HARROLD: And how much have
 24 you out now and at what rates of interest?

25 NOW, MR. MAQUARD: The rate of interest is
 26 4 1/2 per cent. We have the figure here. Mr. Massey in
 27 the Farm Establishment Board we have outstanding at
 28 the end of March \$37,432.



1 MR. MASSEY: \$351,439 under the Industrial
2 Establishment Promotions Board.

3 HON. MR. McQUAID: No, Farm Establishment.

4 MR. MASSEY: I beg pardon. The Farm
5 Establishment is \$1,466,594 at the end of March.

6 THE CHAIRMAN: Is that largely for setting
7 up farmers who are purchasing a farm?

8 HON. MR. McQUAID: Yes.

9 THE CHAIRMAN: That is quite a large sum of
10 money. That represents quite a considerable number
11 of cases?

12 HON. MR. McQUAID: Yes. Of course, an awful lot
13 of that money, sir, would be used for the purchase of
14 equipment and the buying of stock. I grant there is
15 a proportion of it that is going to be used for the
16 consolidation of debts but we try to steer away from
17 that as much as we can. If we give a man a loan and
18 in addition he has debts outstanding we feel it would
19 be unfair to the other creditors who have to get
20 security and it would leave the other men without a
21 possible chance of getting security. We try to loan
22 him enough money to try to pay off his bills.

23 THE CHAIRMAN: If a young man wishes to start
24 farming he can apply for a loan under this arrangement?

25 HON. MR. McQUAID: Yes.

26 THE CHAIRMAN: What proportion of the value
27 of the farm would you advance?

28 HON. MR. McQUAID: They say 85 per cent of
29 the appraised valuation.

30 COMMISSIONER HARROLD: Of the appraised value?



MR. McQUAID: No, Farm Establishment.

MR. WASSER: A big garden. The

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the appraised valuation.

COMMISSIONER BARRETT: Of the appraised value?



1 HON. MR. McQUAID: Of the appraised value.

2 THE CHAIRMAN: That is more than under the
3 Federal Act?

4 HON. MR. McQUAID: Oh yes, much more.

5 THE CHAIRMAN: Is there any limit to the
6 amount per farmer that you would grant?

7 HON. MR. McQUAID: No, no limit set by
8 statute or regulation, sir. It is left to the discretion
9 of the Board of Appraisers. These applications are
10 all passed by the Board.

11 THE CHAIRMAN: If it was an exceptionally
12 good farm, which was more expensive, would you loan
13 him the same percentage as you would on a farm which
14 was not so productive or is that a factor?

15 HON. MR. McQUAID: I am afraid I cannot
16 answer that. I am not sure how they handle that through
17 the Board of Appraisers. But our experience in this
18 type of loan so far has been very, very good. I heard
19 a review given by the Minister of Agriculture about
20 two weeks ago and he said there is a very, very small
21 percentage of loans passed this year in arrears and
22 this has been a bad year for farmers and none of them
23 are serious.

24 COMMISSIONER HARROLD: Do you have a similar
25 sort of arrangement with the fishermen as far as
26 assistance is concerned?

27 HON. MR. McQUAID: Yes, that is just for the
28 purchase of boats, both inshore boats, open boats and
29 draggers.

30 COMMISSIONER HARROLD: At the bottom of page
16, the last two or three lines right near the bottom

Refers Act?

HON. MR. McQUAID: On yet, much more.

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assistance is concerned?

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purchase of boats, both inshore boats, open boats and

At the bottom of page



1 of the second last paragraph: Is that a misprint:
2 "On other occasions, of course, funds were not then
3 available from the Industrial Development Bank of
4 Farm Credit Bureau."?

5 HON. MR. McQUAID: "Or"Farm Credit Bureau.'
6 I think it refers there to the Farm Credit Corporation.

7 COMMISSIONER HARROLD: Yes, that is what I
8 was going to say. Then, there is some comment: "We
9 believe that a more convenient way of obtaining loans
10 must be developed with the various agencies of the
11 Federal Government."

12 HON. MR. McQUAID: That was put in there
13 for this reason -- and I understand now the point of
14 the Farm Credit Corporation -- but an awful lot of
15 our farmers come to us and say, "It is useless for us
16 to go to the Farm Credit Corporation. We want this
17 money reasonably soon and we want to get into operation
18 this spring, and there is so much red tape between
19 the time we apply for it and when we finally get our
20 money that we would prefer not to have anything at
21 all to do with it." I realize a lot of this red tape
22 is absolutely essential, but it is difficult to convince
23 the farmer of that. In the operation of our own board
24 we try to cut the red tape to a minimum. We take
25 a warrant of attorney as collateral security. Rarely
26 do we bother with a chattel mortgage. Farmers object
27 very strenuously to having to give a chattel mortgage
28 to the Corporation, although I believe their policy on
29 that has been relaxed. They do not take a warrant of
30 attorney, but we do. We do not enter it, but we just

that a misprint:
... ..

available from the Industrial Development Bank of
Farm Credit Bureau."

HON. MR. McQUAID: "On Farm Credit Bureau."

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do we bother with a chattel mortgage. Farmers object

very strenuously to having to give a chattel mortgage

to the corporation, although I believe their policy on

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attorney, but we do. We do not enter it, but we just



1 hold it on the file, and we can always get a judgment
2 on a warrant of attorney.

3 COMMISSIONER HARROLD: Does the Farm Credit
4 Corporation have an office here in Charlottetown?

5 HON. MR. McQUAID: Yes, sir.

6 COMMISSIONER LEMAN: Mr. McQuaid, as I
7 walked over here this morning I passed in front of
8 a store and there was a sign on the door "Charlottetown
9 Credit Union". The credit unions have not chosen to
10 make representations to us as they have in most other
11 provinces, but could you tell us what you know of the
12 movement here? Has it taken roots? Are they active
13 in Prince Edward Island?

14 HON. MR. McQUAID: Well, they are set up,
15 of course, under our Credit Union Societies Act, and
16 we have a provincial government employee whom we
17 designate as supervisor of credit unions. He files
18 a report. As a matter of fact, I could get you the
19 last report he filed. Offhand I can't tell you the
20 number of credit unions actually in existence in the
21 province. I know in my own community where I live,
22 Souris, about 50 miles east of here there are two
23 credit unions -- not too well patronized, shall we say,
24 by the adult population, but quite well by children.
25 While the parents are not interested themselves, they
26 are interested apparently in teaching the children to
27 save, and I would say a large percentage of the money
28 on deposit in those two credit unions would be deposits
29 that would be received from children. I understand
30 in the western part of the province they are very active

... and we can always get a judgment
... of attorney.

COMMISSIONER HARROLD: Does the Bank Credit

Corporation have an office here in Charlotte?

HON. MR. McQUAIL:

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on deposit in those two credit unions would be deposited

...

...



1 there, and in that particular area, for a long time
2 there was no bank, and perhaps that was one of the
3 reasons why they have quite large deposits in the
4 Tignish credit union.

5 COMMISSIONER LEMAN: You have no idea what
6 their total assets would be?

7 HON. MR. McQUAID: No, but I would be able
8 to get you the report.

9 MR. MERCURE: It is \$1½ million.

10 COMMISSIONER LEMAN: The reason I asked,
11 Mr. McQuaid, is that you talked to us about some
12 difficulties in the reasonably small loan area -- you
13 talked about \$1,500 -- that certain people might need
14 for certain purposes, and this seems to be rather a
15 good field for such institutions.

16 HON. MR. McQUAID: Credit unions?

17 COMMISSIONER LEMAN: Yes.

18 HON. MR. McQUAID: Well, of course, they
19 will only loan, as I understand it, to their own members.
20 Are they permitted by statute to loan to other than
21 their own members?

22 COMMISSIONER LEMAN: Well, it is not a
23 matter of statute. They do loan to their own members,
24 but we have learned in other provinces that to become
25 a member is rather a simple thing. You just go down
26 and buy a share for \$5 and you are a member. I was
27 just curious to know if the movement has taken at all
28 in your population?

29 HON. MR. McQUAID: I think too they have a
30 credit union established right here in the City of

reasons why they have quite large deposits in the

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a member is rather a simple thing. You just go down

and pay a share for \$5 and you are a member. I was

just curious to know if the movement was taken at all

in your jurisdiction?

HON. MR. McQUAID: I think too they have a



1 Charlottetown which, I guess, is fairly successful,
2 though I don't know much of its operation. They will
3 lend money to their own members, but I don't think
4 they go beyond that. Did you have in mind that could
5 be a place where some of our farmers could go to borrow
6 money to buy their farms?

7 COMMISSIONER LEMAN: Well, of course, I had
8 in mind -- with your deposit receipt system paying
9 5 per cent, of course, that makes it a little difficult
10 for others to get savings from the people if your
11 deposit receipts are very popular.

12 HON. MR. McQUAID: I don't think our deposit
13 receipt system would interfere at all with the operation
14 of a credit union, because we don't make a policy of
15 accepting small amounts by way of deposit receipts.
16 The money to the credit unions, I think, comes in in
17 small amounts.

18 COMMISSIONER LEMAN: This one and a half
19 million which they now control -- have you any idea
20 how it is invested?

21 HON. MR. McQUAID: No. I presume most of
22 it will be just invested in small loans on promissory
23 notes. In the City of Charlottetown here there is
24 probably a little investment by way of mortgage security,
25 but I would think a large proportion is just invested
26 in small loans.

27 COMMISSIONER LEMAN: Consumer loans?

28 HON. MR. McQUAID: Yes.

29 COMMISSIONER LEMAN: There was some discussion
30 earlier about the problem that exists relative to the

own which I agree, is fairly successful.

Don't know much of the operation. They will

be a place where some of our farmers could go to borrow

money to pay their taxes?

COMMISSIONER LEWIS: Well, of course, I had

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5 per cent, of course, that makes it a little difficult

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probably a little investment by way of mortgage security.

But I would think a large proportion is just invested

in small loans.

HON. MR. McQUAID: Yes.

COMMISSIONER LEWIS: There was some discussion

earlier about the problem that exists relative to the



1 timing of issues by the Government of Prince Edward
2 Island, and you say that the fiscal agency you have
3 established has not been in existence for very long,
4 but have you been able to find out yet whether this
5 fiscal agent is not able to help you a great deal on
6 this particular problem? I think you will find most
7 of the large national investment houses that operate
8 throughout Canada are pretty well informed on this
9 score.

10 HON. MR. McQUAID: Yes.

11 COMMISSIONER LEMAN: And that would help you
12 a great deal.

13 HON. MR. McQUAID: Yes. We think our fiscal
14 agency will be of considerable help and will be in touch
15 with what is going on.

16 COMMISSIONER BROWN: I wonder if I could
17 ask one or two questions about municipal financing.
18 Looking at the record you appear to have a very large
19 number of very small municipal issues. I wondered
20 if consideration had been given to combining these
21 as in fact you do in a guarantee, anyway -- combining
22 them and borrowing in the name of a municipal financing
23 corporation? You would probably get a better rate on
24 municipal issues and it would also provide a wide
25 education in corporate issues. I am thinking of the
26 way Alberta does it.

27 HON. MR. McQUAID: The municipal bond becomes
28 a direct liability to the province, rather than an
29 indirect one?

30 COMMISSIONER BROWN: No, it still remains

financial agent is not able to help you a great deal on this particular problem? I think you will find most of the large national investment houses that operate throughout Canada are pretty well informed on this score.

HON. MR. McQUINN: Yes.

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HON. MR. McQUINN: The municipal bond becomes



1 indirect, but coming through this municipal financing
2 corporation.

3 HON. MR. McQUAID: They set up the issue?

4 COMMISSIONER BROWN: Yes.

5 HON. MR. McQUAID: We haven't thought of
6 that, but it sounds good.

7 COMMISSIONER LEMAN: The suggestion here
8 is that you would like to join up with the Federal
9 Government in borrowing. The same principle would
10 apply here: It is all the same people, as you point
11 out in the brief.

12 HON. MR. McQUAID: Yes. And in Alberta,
13 for example, who handles the sale of bonds?

14 COMMISSIONER BROWN: The Alberta government does,
15 but it is done as large issues -- consolidated from a lot
16 of small municipalities. Instead of having a \$20,000
17 issue, you would have a \$1 million issue.

18 MR. MASSEY: In other words, if we knew the
19 requirements of our municipalities came to around
20 \$800,000, we would probably borrow \$1 million, and
21 then loan that to the municipalities on a debenture
22 issue, and the \$200,000 or \$300,000 would be for some
23 other municipality if necessary.

24 COMMISSIONER BROWN: That may be one way of
25 doing it. I think the usual way is to borrow the exact
26 amount the municipalities wish.

27 HON. MR. McQUAID: Your suggestion is that
28 it would be sold with a government guarantee.

29 COMMISSIONER BROWN: That is right. If you
30 are guaranteeing already now, it would be a much simpler

HON. MR. McLEOD: We haven't thought of

that, but it sounds good.

in that you would like to join up with the Federal Government in borrowing. The same principle would apply here: it is all the same people, as you point

out in the bill.

HON. MR. McLEOD: Yes. And in Alberta,

12 bill is done as large issues -- consolidated from a lot of small municipalities. Instead of having a \$20,000 issue, you would have a \$1 million issue.

MR. McLEOD: In other words, if we have the

consolidation of the municipalities, we would have a larger issue, and the \$20,000 or \$500,000 would be for some other purpose, and the municipalities on a debenture issue, and the \$20,000 or \$500,000 would be for some other purpose.

COMMISSIONER BROWN: That may be one way of doing it. I think the usual way is to borrow the exact amount the municipalities wish.

HON. MR. McLEOD: Your suggestion is that

it would be sold with a government guarantee.

COMMISSIONER BROWN: That is right. If you



1 operation for you and for the municipalities, and I
2 think they would get a better rate of interest. I
3 suggest you study this, and I wondered if you had.

4 HON. MR. McQUAID: No, we haven't.

5 COMMISSIONER LEMAN: It may involve fairly
6 close control of the borrowings.

7 HON. MR. McQUAID: Well, of course, we do
8 exercise some degree of control over their borrowing
9 now in as much as they are limited by statute under
10 the Town Act and the Village Act to what amount they
11 can borrow.

12 COMMISSIONER BROWN: This would give a much
13 wider market.

14 HON. MR. McQUAID: It certainly would.

15 COMMISSIONER BROWN: The other point to which
16 I would like to refer is on page 7, paragraph (b).
17 You refer to the four Atlantic provinces combining
18 in their borrowing. In the discussion we had earlier
19 you then talked merely about co-operation between them
20 and the timing. Do I gather from that you have given
21 up this thought of combining?

22 HON. MR. McQUAID: No, I think co-operation
23 in their borrowing would come later. You have to take
24 the first step first and at least get together to the
25 point where they decide to give each other information
26 as to when their issues are going to be placed on the
27 market. That would be the first step. That is what is
28 meant by "co-operation" in their borrowings.-- not
29 actually the getting of the money.

30 COMMISSIONER BROWN: You say that these provinces



1 should combine.

2 HON. MR. McQUAID: By "combine" I mean work
3 together -- not as one unit.

4 COMMISSIONER BROWN: You mean co-operate
5 and not combine?

6 HON. MR. McQUAID: That is right. Not
7 operate as a unit, but work together in placing their
8 issues.

9 THE CHAIRMAN: Would it be practical to
10 consider borrowing as a unit, or is that too far in
11 the distant future?

12 HON. MR. McQUAID: I think it would be
13 advantageous to us, being a smaller province. We haven't
14 got any figures to base this on, but in all probability
15 we pay more for our issues now than does the Province
16 of New Brunswick or Nova Scotia, or even Newfoundland.

17 COMMISSIONER LEMAN: But how about your debt
18 per capita? If it was a combined debt it would average
19 out over the current population of the entire area
20 and you may find these figures would average ---

21 HON. MR. McQUAID: It could happen that
22 could lower it.

23 COMMISSIONER LEMAN: Yes, that is right. So,
24 that is one disadvantage.

25 COMMISSIONER BROWN: Another thing I would
26 like to ask about is whether you can give us the total
27 you have out on these various financing corporations
28 indirectly to the Prince Edward Island Industrial
29 Corporation and the farm organizations and so forth.

30 HON. MR. McQUAID: The guaranteed debt?

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indirectly to the Prince Edward Island Industrial

Corporation and the farm organizations and so forth.

HON. MR. McQUAID: The guaranteed debt?



1 COMMISSIONER BROWN: No, all of these advances
2 to individuals: Could you give us a picture of what
3 the total is?

4 MR. MASSEY: Aside from the Fishermen's
5 Loan Board, we have at the end of March \$4,373,277.

6 COMMISSIONER BROWN: And the Fishermen's
7 Loan Board was how much on top of that?

8 MR. MASSEY: I didn't get the figure for
9 the end of March.

10 COMMISSIONER BROWN: Have you got an
11 approximate figure -- or perhaps you could send it to
12 us afterwards.

13 MR. MASSEY: Yes, I could do that.

14 COMMISSIONER BROWN: I understand from the
15 text that you have loaned this money for 25 years
16 at the bank rate?

17 HON. MR. McQUAID: Our interest rates are
18 $5\frac{1}{2}$ per cent on all these agencies.

19 COMMISSIONER BROWN: Is that repayable on an
20 annual basis or monthly basis?

21 HON. MR. McQUAID: Annually or semi-annual.

22 COMMISSIONER BROWN: You say at the moment
23 the interest rate is $5\frac{1}{2}$ per cent: Does this go up
24 when money get tighter? In 1959 did you charge a higher
25 rate?

26 HON. MR. McQUAID: As a matter of fact, it
27 was lower -- 4 per cent. We put it up in either 1960
28 or 1961.

29 COMMISSIONER BROWN: When you put it up does
30 this new rate apply only to new loans or to all of them?



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was lower -- 4 per cent. We put it up in either 1960
or 1961.

COMMISSIONER BROWN: When you put it up does



1 HON. MR. McQUAID: No, we never figured we
2 could change it on existing loans.

3 COMMISSIONER BROWN: In other words, it is
4 definitely a fixed term loan on a fixed rate of interest?

5 HON. MR. McQUAID: Yes, sir.

6 COMMISSIONER BROWN: So, if interest rates
7 changed again and went down to 4 per cent; could these
8 people who borrowed $5\frac{1}{2}$ per cent refund?

9 HON. MR. McQUAID: No, not unless we decided
10 we were going to let them do that. I don't think
11 we would ever refuse a borrower who came in with his
12 money and said, "My term is not up but I want to pay
13 off my loan".

14 COMMISSIONER LEMAN: Is it prepayable without
15 penalty?

16 HON. MR. McQUAID: No, the mortgage contract
17 does not say so.

18 COMMISSIONER BROWN: There is no contractual
19 right to do that?

20 HON. MR. McQUAID: That is right, but I think
21 it would be poor public relations for the government
22 not to accept the money from anybody who wanted to pay
23 it off.

24 COMMISSIONER LEMAN: If the right of prepayment
25 is not specifically denied, then it is there. The
26 right to prepay exists unless it is prohibited, I think.

27 HON. MR. McQUAID: Possibly.

28 COMMISSIONER LEMAN: I think a penalty has
29 to be stated.

30 COMMISSIONER BROWN: When you arrived at the

It on existing loans.

COMMISSIONER BROWN: In other words, it is

definitely a fixed term loan on a fixed rate of interest?

COMMISSIONER BROWN: No, if interest rates

changed again and went down to 4 per cent, could these

people who borrowed 5 per cent refund?

HON. MR. McQUAID: No, not unless we decided

we were going to let them do that. I don't think

we would ever refuse a borrower who came in with his

money and said, "My term is not up but I want to pay

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COMMISSIONER LEWIS: Is it payable without

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to be stated.

When you arrived at the



1 figure of net debt which you gave us as probably \$32
2 million at the end of 1963, do you allow for this
3 money that other people owe you such as on this
4 Prince Edward Island Industrial Corporation?

5 HON. MR. McQUAID: Some of it, previous to
6 1961. This money that was loaned out for tourist
7 loans and industrial loans and so on was taken out of
8 the consolidated fund. About two years ago we changed
9 our system and these corporations now borrow their own
10 funds at the bank and we guarantee their loan, and they
11 loan the money out of their own money that they have
12 borrowed. So, it is not included. Subsequent to
13 1961 it is not included in our net direct debt. It
14 would be only an indirect liability.

15 COMMISSIONER MacKEEN: Contingent?

16 HON. MR. McQUAID: Contingent, and as the
17 money is paid back we have a system set up whereby
18 we distinguish between the old and new loans. If it
19 is repaid on an old loan it goes back into the consolidated
20 revenue, but if it is repaid on one of the other loans
21 it just goes to the credit of the loan corporation at
22 the bank.

23 COMMISSIONER BROWN: I was also wondering what
24 was behind your thinking in setting up the new Crown
25 Corporation to build the new provincial parliament
26 building. Is this building going to be occupied by
27 other provincial departments?

28 HON. MR. McQUAID: No.

29 COMMISSIONER BROWN: Usually a provincial
30 government directly can borrow more advantageously

at the end of 1963, do you allow for this

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Corporation to build the new provincial parliament
building. Is this building going to be occupied by

COMMISSIONER BROWN: Usually a provincial



1 than a separate Crown Corporation.

2 HON. MR. McQUAID: We understand that is the
3 way Newfoundland did it. It has the ultimate effect
4 of keeping your net fund and provincial debt down.

5 COMMISSIONER BROWN: How much will this come
6 to?

7 HON. MR. McQUAID: The new building?

8 COMMISSIONER BROWN: Yes.

9 HON. MR. McQUAID: I think it is in the
10 vicinity of \$4 million.

11 COMMISSIONER BROWN: All this proliferation
12 of borrowing by different corporations operates against
13 the very thing that you are suffering from, and that
14 is, not enough direct issues so that the investing
15 public gets to know it and recognize it as good
16 investment.

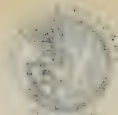
17 HON. MR. McQUAID: We feel if our fiscal
18 agency does a proper job we should be able to acquaint
19 the corporations who are buying.

20 COMMISSIONER BROWN: Have you made arrangements
21 with them to handle just the high issues, or all issues
22 in which the provincial government has an interest?

23 HON. MR. McQUAID: No, the agreement confines
24 itself to Prince Edward Island.

25 COMMISSIONER LEMAN: Then, you do not give
26 that fiscal agent that volume that would enable him
27 to spend money on doing an advertising job for you.
28 Volume is a big factor in this sort of operation.

29 HON. MR. McQUAID: Our present fiscal agency
30 is apparently prepared to do quite an extensive job



...the Crown Corporation.
 ...we understand that is the
 Newfoundland did it. It has the ultimate effect
 of keeping your net food and provincial debt down.
 COMMISSIONER BROWN: How much will this come

for

HON. MR. McQUAID: The new building?
 HON. MR. McQUAID: I think it is in the
 vicinity of \$4 million.

...of borrowing by different corporations operates against
 the very thing that you are suffering from, and that
 is, not enough direct issues so that the investing
 public gets to know it and recognize it as good

HON. MR. McQUAID: We feel if our fiscal
 agency does a proper job we should be able to acquire
 the corporations who are paying.

COMMISSIONER BROWN: Have you made arrangements
 with them to handle just the high issues, or all issues
 in which the provincial government has an interest?

HON. MR. McQUAID: No, the agreement confines
 itself to Prince Edward Island.

COMMISSIONER LEAMAN: Then, you do not give
 that fiscal agent that volume that would enable him
 to spend money on doing an advertising job for you.
 Volume is a big factor in this sort of operation.

HON. MR. McQUAID: Our present fiscal agency
 is apparently prepared to do quite an extensive job

1 for us. As a matter of fact, they have been down here
2 already and have spent several days travelling around
3 the province and acquainting themselves with what we
4 have here. They have spent considerable time in the
5 Treasury office studying the whole financial setup
6 and they are now in the course of preparing a brochure
7 which they propose to distribute to the larger
8 corporations who would be interested and they are
9 also making arrangements whereby the Premier and some
10 of the Treasury Board can meet in some central place
11 with these people and discuss the Prince Edward Island
12 issues with them. That, I think, if it materializes
13 should help to advertise this. Your thought is that
14 the more we have going on the market the better chance
15 we will have of selling it?

16 COMMISSIONER BROWN: No, I do not say that.
17 If you are going to have to borrow anyway and you are
18 providing a guarantee, in other words, your credit is
19 behind it you might as well borrow in the one name
20 thereby consolidating the advertising. If you borrow
21 in the name of a crown corporation this is something
22 that the public and people have to look not only at
23 the crown utility but also whether guaranteed or not
24 guaranteed unless it is in a completely self-supporting
25 enterprise such as Hydro Electric and reflected all
26 over these government accounts there is always the element
27 of what routine we have to go through in order to
28 implement the guarantee.. This Crown Corporation is
29 completely provincial?

30 HON. MR. McQUAID: Yes.

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over these Government accounts there is always the element of what routine we have to go through in order to implement the guarantee. This Crown Corporation is

completely provincial?



1 COMMISSIONER BROWN: Your revenues are going
2 to come from the provincial revenues. If it is a direct
3 provincial issue then it is perfectly simple; there
4 is no problem about what do we have to do to get through
5 on the guarantee. I am only suggesting if you have
6 not considered it already you might reconsider this
7 and at least discuss it with your fiscal agent and see
8 whether he might not think this would be a better way
9 of doing it.

10 THE CHAIRMAN: Was it contemplated that this
11 corporation should borrow separately or would the money
12 be provided out of the government funds to the
13 corporation?

14 HON. MR. McQUAID: No, they would issue their
15 own bonds.

16 THE CHAIRMAN: They own bonds?

17 HON. MR. McQUAID: Yes. Is that not becoming
18 increasingly prevalent in all the provinces of Canada
19 now, setting up these Crown Corporations and letting
20 them do their own borrowing with government guarantee?

21 COMMISSIONER LEMAN: I suppose some of them
22 have borrowed sometimes as much as the province. You
23 do not have that type of problem.

24 COMMISSIONER BROWN: At the same time we find
25 that most of them are in the nature of public utilities
26 and can look forward to their own revenues independent
27 of the provincial revenues and there is the provincial
28 guarantee in addition to that. But you see if you get
29 so many of these things sort of scattered around the
30 province they affect your total credit. It all affects

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so many of these things sort of scattered around the

province they affect your total credit. It all affects



1 your credit. You are providing the guarantee. You
2 should discuss this and see if it would not be more
3 advantageous.

4 THE CHAIRMAN: It might be different if the
5 money for that type of a project were coming from local
6 sources. People who are interested in that project
7 and know all about it might do it for even a lower rate.
8 Sometimes that happens but this is not a self-liquidating
9 property.

10 HON. MR. McQUAID: No. They are going to
11 sell their bonds on the open market.

12 COMMISSIONER BROWN: You see, it would be
13 different if they were renting half of the building to
14 the provincial authority and the other half to business.
15 This is all government.

16 HON. MR. McQUAID: Yes.

17 COMMISSIONER LEMAN: Mr. McQuaid, in paragraph
18 9(c) of your brief, page 10, you suggest that there
19 should be other incentives not only to increase the
20 available market for these securities but to lower the
21 interest rates which should follow in any event. Would
22 you elaborate on that, what you have in mind -- income
23 tax exemption?

24 HON. MR. McQUAID: Well, income tax abatement
25 as pointed out in the last sentence:

26 "One such incentive would be the provision
27 for an income tax abatement on the interest
28 revenue from public security issues of all types,
29 be they of short or long-term, municipal,
30 provincial or federal."



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provincial or federal."



1 I believe that was the policy one time in connection
2 with Dominion Government annuities. Isn't there a
3 portion of Dominion Government annuities now, the older
4 ones, that are not taxable?

5 COMMISSIONER LEMAN: Yes.

6 COMMISSIONER BROWN: Quite a long time ago.

7 HON. MR. McQUAID: That must have been quite
8 an incentive at that time for selling the bonds.

9 COMMISSIONER MACKINTOSH: I think the
10 unfortunate thing was that at the time it was given
11 it was of very little value.

12 HON. MR. McQUAID: There was no income tax
13 then.

14 COMMISSIONER MACKINTOSH: There was very little.
15 It affected people who bought about \$900 worth.

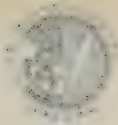
16 HON. MR. McQUAID: I suppose if you put
17 them out today on that same incentive ---

18 COMMISSIONER LEMAN: Oh yes, and in the
19 States they have this exemption for municipal bonds.
20 There are some of the authorities that regret it. It
21 is a form of subsidy, isn't it?

22 HON. MR. McQUAID: Exactly, a form of subsidy.

23 COMMISSIONER BROWN: You see, it is of no
24 use to institutions. Institutions like insurance
25 companies are not paying income tax on their income
26 revenue. This is for individuals. When lower interest
27 rates are imposed it makes it less attractive for
28 institutions.

29 HON. MR. McQUAID: Of course, we don't know
30 who are the principal holders of our bonds, whether they



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revenue. This is for individuals. When lower interest

rates are imposed it makes it less attractive for

institutions.

HON. MR. McQUAID: Of course, we don't know

who are the principal holders of our bonds, whether they



1 are institutions or individuals because most of our
2 bonds are in bearer form particularly. We have a feeling
3 that possibly a lot of them are held by institutions.

4 COMMISSIONER LEMAN: That is another service
5 that your fiscal agent might be willing to give you.
6 Usually on a new issue you get advice from the dealers.
7 Usually they know what the distribution of the bonds
8 has been.

9 HON. MR. McQUAID: Yes. Occasionally we
10 get a bunch of bonds come in for registration and they
11 have been changed from bearer form to another form but
12 not too often. We do know there are not too many local
13 people holding Prince Edward Island bonds. There are
14 not too many of these bonds sold within our own province.

15 COMMISSIONER BROWN: In your last two
16 issues all your bonds were payable not farther west
17 than Toronto?

18 HON. MR. McQUAID: That is right.

19 COMMISSIONER BROWN: And subsequently you
20 might go farther west and also other branches of the
21 banks. Has there been any indication from coupons that
22 any of these are held farther west? Has this assisted
23 in a wider distribution of the bonds?

24 MR. MASSEY: The percentage is very small,
25 I would say, west of Toronto.

26 COMMISSIONER BROWN: Perhaps you are thinking
27 of the first one.

28 MR. MASSEY: No, we have had two and from
29 the coupons that have come back on those two issues the
30 percentage is very small. The last issue was \$4,260,000

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HON. MR. McQUAID: Yes. Occasionally we
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I would say, west of Toronto.
COMMISSIONER BROWN: Perhaps you are thinking
of the first one.
MR. MASSER: No, we have had two and from



1 and the majority of those bonds are held in Quebec
2 and Ontario with a small percentage of them in the
3 Maritimes and a very few --- the amount sold in Calgary,
4 Edmonton, Vancouver and Victoria was negligible. This
5 is only the first two issues we put out with that
6 proviso where they are to be paid. We may on the next
7 issue have quite a few out there.

8 HON. MR. McQUAID: We don't know, our bonds
9 have never been past Toronto.

10 COMMISSIONER BROWN: This question of fixing
11 payment encourages that. There is no incentive for a
12 person to buy a bond when they cannot collect the payment.

13 THE CHAIRMAN: Any further questions?

14 Thank you very much, Mr. McQuaid, for your
15 brief and discussion which has resulted from it.

16 HON. MR. McQUAID: Is there any additional
17 information the Commission would like to have?

18 THE CHAIRMAN: Well, we did mention the
19 report of the credit unions.

20 HON. MR. McQUAID: And the answer by our
21 auditor to the question that was asked.

22 THE CHAIRMAN: That is right, those are the
23 only two that I recollect.

24 COMMISSIONER MacKEEN: The Fishermen's Loans,
25 you have that?

26 MR. MASSEY: Yes, I have that.

27 HON. MR. McQUAID: I can leave this with you
28 now if you like. This is a copy of our Deposit Receipt
29 Act and this is a deposit receipt as issued.

30 THE CHAIRMAN: Then, the Commission will now

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HON. MR. McQUAID: I can leave this with you

MR. WASHLEY: Yes, I have that.

You have that?

only two that I recollect.

THE CHAIRMAN: That is right. These are the

addition to the question that was asked.

HON. MR. McQUAID: And the answer by our

report of the credit unions.

THE CHAIRMAN: Well, we did mention the

information the Commission would like to have?

HON. MR. McQUAID: Is there any additional

brief and discussion which has resulted from it.

Thank you very much, Mr. McQuaid, for your

THE CHAIRMAN: Any further questions?

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and Ontario with a small percentage of them in the

of those bonds are held in Quebec



Nethercut & Young

- 2164 -

Toronto, Ontario

1 adjourn and resume in Halifax on Monday, June 11th,
2 in the Red Room in Province House at 9.15 in the
3 morning daylight saving time.

4 --- Adjournment.

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in the Province House at 9.15 in the

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Province House

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Royal Commission on Banking and Finance

Hearings
held at
Charlottetown

Vol.
19 A

Date.
June 7 1962



Official Reporters
J. J. Nethercut and R. J. Young
Toronto, Ont.

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Government of the Province of Prince
Edward Island

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Page No's

Government of the Province of Prince
Edward Island.

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Nethercut & Young
Toronto, Ontario

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Charlottetown,
Prince Edward Island

April 27, 1962.

Honourable Dana Porter, L.L.D.,
Chairman, Royal Commission on Banking and Finance,
P.O. Box 1502, Station "B",
Ottawa, Ontario.

Dear Sir:

I take pleasure in submitting for the
consideration of your Commission a brief setting down
the practices, problems, and recommendations of the
Government of this Province as they relate to Banking
and Finance.

As requested by your Secretary, we have prefaced
this brief with a summary of the various recommendations
included therein. We have purposely condensed these
recommendations to the shortest possible space, as
the brief itself is not long. We consider this summary
to be more for reference purposes than for a
description of the recommendations submitted.

I would like to assure you of the considerable
interest and importance which the Government of this
Province places on the findings of your Commission.
We look forward to your visit to this Province and to
the ultimate recommendations which you will be making
to the people of Canada.

Yours sincerely,

M.J. McQuaid, Q.C.,
Provincial Treasurer.



Summary of Recommendations Submitted by the
Government of Prince Edward Island to the
Royal Commission on Banking and Finance

Reference

Page 5 - Paragraph 3(c)

The Government of Canada should continue its efforts to minimize, as far as possible, the fluctuation of the Canadian dollar in the money markets of the world.

Page 7 - Paragraph 6(b)

We suggest that regional security markets might be set up with and by the co-operation of the Provinces.

Page 7 - Paragraph 6 (c)

We recommend the establishment of a central borrowing agency under the direction of the Provincial and Federal Governments to co-operate in the provision of funds to these Governments.

Page 9 & 10 - Paragraph 9 (a)

We look forward to your Commission's study and report on the factors used in determining the Canadian money supply.

Page 10 - Paragraph 9 (c)

We suggest that incentives be provided to investors in Canadian Government Securities.

Page 11 - Paragraph 10(b)

We concur that advantages could be obtained by the establishment of regional monetary authorities.

Page 12 - Paragraph 11 (e)

We suggest further that regional monetary



1 authorities could obtain the co-operation of
2 municipalities in their borrowing, and advise or direct
3 them in financial matters..

4 Page 12 - Paragraph 11 (f)

5 We consider that continuing federal assistance
6 should be made to municipal projects which are of a
7 country-wide nature, such as the erection of schools
8 and hospitals.

9 Page 13 - Paragraph 13 (c)

10 We recommend that the federal government
11 countenance no further amalgamations of existing banks.

12 Page 13 - Paragraph 13 (d)

13 We recommend further that banks be precluded
14 from the acquisition of effective control of Trust
15 companies.

16 Page 14 - Paragraph 13 (f)

17 We recommend revisions to the Bank Act and
18 to the administration of the Canadian Banking Association
19 to allow individual banks, otherwise, more freedom in
20 the directing of their affairs. We suggest, for
21 example, the establishment of "currency exchanges" as
22 a means of cutting banking costs.

23 Page 16 - Paragraph 14 (e)

24 We recommend that the administration of
25 federal agencies be amended to provide a more convenient
26 and flexible method of acquiring loans through such
27 agencies as the Industrial Development Bank, the Farm
28 Credit Bureau, and the like.

29 Page 17 - Paragraph 14 (f)

30 We consider that the federal customs tariff
is in serious need of overall review and consolidation.

and advice or direct

about the same to municipal projects which are of a
county-wide nature, such as the erection of schools
and hospitals.

We recommend that the federal government
continue its further amalgamation of existing banks.

We recommend further that banks be precluded
from the acquisition of effective control of Trust

companies.

Page 14 - Paragraph 1 - 12

We recommend revisions to the Bank Act and
to the administration of the Canadian Banking Act
to allow individual banks, otherwise, more freedom in
the directing of their affairs. We suggest, for

example, the establishment of "currency exchange" as
a means of holding banking assets.

Page 15 - Paragraph 1 - 13

We recommend that the administration of
federal agencies be amended to provide a more convenient
and flexible method of acquiring loans through such
agencies as the Industrial Development Bank, the Farm
Credit Bureau, and the like.

Page 16 - Paragraph 1 - 14



Page 17 - Paragraph 15

We have made a few small but specific recommendations for changes in the Bank Act, which include a continuation of the present 6 per cent interest ceiling. In the same paragraph we recommend that other financial institutions should be regulated on a basis somewhat comparable to the regulation of Canadian Banks.

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PROVINCE OF PRINCE EDWARD ISLAND

SUBMISSION TO THE ROYAL COMMISSION ON BANKING AND

FINANCE

We are pleased to submit for your study and consideration the following brief, setting out the practices, the problems, and certain suggestions relating to the financial needs, and the supply of capital to this Province. This submission has been set up to follow the list submitted by your Secretary, with his letter of January 12, 1962 to the Honourable Walter R. Shaw, Premier of Prince Edward Island. The different sections of this brief are numbered from 1 to 14 to correspond with those set out in this list of topics of particular interest to you. Any suggestions are included with the section to which we feel it principally applies, although, of course, some subjects of necessity overlap.

We look forward to meeting with the members of your Commission during their visit to the capital of this Province, at which time we will be pleased to give such further information as you consider necessary, and as we are able to supply.

1. Financing Requirements - Past and Future

(a) We are attaching a statement of funded and net funded debt of this Province as at March 31, 1961. The most recent borrowings of this Province to supply "new money" occurred in December 1959, when four million dollars were borrowed on the bond market in the United

ADAMANT STATE

FINANCE

We are pleased to submit for your study and consideration the following brief, setting out the practices, the problems, and certain suggestions relating to the financial needs and the supply of capital to this Province. This discussion has been set up to follow the list submitted by your Secretary, in his letter of January 12, 1902 to the Honourable Walter R. Shaw, Premier of Prince Edward Island. The different sections of this brief are numbered from 1 to 14 to correspond with those set out in this list of topics of particular interest to you. Any suggestions are included with the section to which we feel it is most closely related. There is, of course, some overlap of necessity.

We look forward to meeting with the members of your Commission during their visit to the capital of this Province, at which time we will be pleased to give such further information as you consider necessary, and as we are able to supply.

Financial Requirements - Past and Future

(a) We are attaching a statement of funded and net funded debt of this Province as at March 31, 1901. The most recent borrowings of this Province to supply "new money" occurred in December 1900, when four million dollars were borrowed on the bond market in the United



1 States of America. This Province did not go south
2 of the border for funds as a preference, but, at this
3 particular time, was more or less forced into this
4 market, because of the conditions of the bond market
5 in Canada. Since that time our bond issues have been
6 wholly to refund prior issues which have matured, to
7 the extent that these were not covered by sinking fund
8 assets.

9 (b) This Province has, in the past, made
10 extensive use of bank borrowings for short term needs;
11 at the end of March 1961 the total bank overdraft in
12 the Treasury Department amounted to some \$2,203,800. The
13 amount of bank borrowings fluctuate considerably from
14 year to year and month to month, and it is of interest
15 to note that bank overdrafts at March 31, 1960 amounted
16 to \$1,373,300 and in March 1959 totalled \$3,367,900.
17 The level of bank overdrafts vary, not only with the
18 incidence of expenditures on the particular projects
19 which this Government is carrying out/any year, but, also,
20 with our opinion and advice as to what is the most
21 advantageous time to sell a bond issue. For example,
22 we may carry the amounts of matured bond issued required
23 to be refinanced as bank overdrafts for many months,
24 waiting until we feel the bond market will be most
25 receptive, or until we can present a larger issue which
26 may be more attractive.

27 (c) This Province has for many years accepted
28 deposits from individuals under our "Deposit Receipt
29 Regulations". Copies of the governing statute are
30 available for your information if required. For this

States of America. This Province did not go south of the border for funds as a preference, but, at this particular time, was more or less forced into this market, because of the conditions of the bond market in Canada. Since that time our bond issues have been wholly to refund prior issues which have matured, to the extent that these were not covered by sinking fund assets.

(b) This Province has, in the past, made extensive use of bank borrowings for short term needs; at the end of March 1961 the total bank overdraft in the Treasury Department amounted to some \$2,203,800. The amount of bank borrowings fluctuates considerably from year to year and month to month, and it is of interest to note that bank overdrafts at March 31, 1960 amounted to \$1,373,300 and in March 1959 totalled \$3,361,900. The level of bank overdrafts vary, not only with the incidence of expenditures on the particular projects during which this Government is carrying out any year, but, also, with our opinion and advice as to what is the most advantageous time to sell a bond issue. For example, we may carry the amounts of matured bond issues required to be refinanced as bank overdrafts for many months, waiting until we feel the bond market will be most receptive, or until we can present a larger issue which may be more attractive.

(c) This Province has for many years accepted deposits from individuals under our "Deposit Receipt Regulations". Copies of the governing statute are available for your information if required. For this



1 type of security the interest rate can be varied without
2 notice. The Lieutenant-Governor-in-Council, the funds
3 must be left on deposit for 90 days before any interest
4 is payable, and that a maximum amount is set, not for
5 individuals but for total funds of this type. The
6 present maximum is \$5 million and the present interest
7 rate is 5 per cent per annum.

8 For reasons which we do not completely
9 understand, the Province has never received as much
10 in the form of deposit receipts as we felt we could use,
11 and, this, despite a very attractive rate of interest.
12 On the other hand we discourage the acceptance of
13 deposits from companies, and will not accept deposits
14 from Investment Houses, Trust Companies and the like,
15 except against small individual accounts. This type
16 of financing is designed for the individual, who
17 temporarily has a small amount which he wishes to
18 invest.

19 (d) This Province also issues from time to
20 time Treasury Promissory Notes as another means of
21 obtaining short term funds. These securities are issued
22 under the authority of the Treasury Act, copies of which
23 are also available if required. As a matter of history
24 the amounts outstanding at the end of the last three
25 fiscal years were as follows:-

26 1961 - \$3,500,000

27 1960 - \$7,000,000

28 1959 - \$3,000,000

29 During the past year and one-half we have resorted
30 more regularly to this type of short term financing,

Un-Subsidiary

and we are not prepared to say that we have not

in the past, and we are not prepared to say that we have not

individuals in the total funds of the Province.

present amount in \$5 million and the present interest

rate is 2 per cent per annum.

For reasons which we do not completely

understand, the Province has never received as much

in the form of deposit receipts as we felt we could get.

and, finally, despite a very conservative rate of interest,

to the extent that we discourage the accumulation of

deposits from companies, and will not accept deposits

from Investment Houses, Trust Companies and the like,

except against small individual accounts. This type

of financing is designed for the individual, who

normally has a small amount which he wishes to

invest.

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obtaining short term funds. These securities are issued

under the authority of the Treasury Act, copies of which

are also available if required. As a matter of history

the amount outstanding at the end of the last three

fiscal years were as follows:

1960 - \$7,000,000

1959 - \$8,000,000

during the past year and one-half we have received

more regularly in this type of short term financing.



1 with corresponding decreases in the amount of bank
2 overdrafts. We have been able to negotiate interest
3 rates as low as $3\frac{1}{2}$ per cent, and, therefore, realize
4 a considerable saving on the $5\frac{1}{2}$ per cent presently
5 charged by the chartered banks.

6 (e) As for future trends in financing, it is
7 our present intention to pay for most capital
8 expenditures out of current revenues. We will certainly
9 have refunding issues to negotiate and probably an
10 issue to cover an erection of a government office
11 building. Beyond this, we know of no significant
12 requirements for capital funds in the near future.

13 2. Particulars of Issues

14 (a) It is this Government's intention to
15 continue in its endeavours to place future bond issues at
16 the most advantageous times and in the cheapest markets.
17 To assist us in doing so, we also intend to seek the
18 most competent advice from Investment Dealers and others
19 to achieve this end. We also intend to make extensive
20 use of the short term money market as long as it
21 remains favourable to us. It is also our intention to
22 continue receiving amounts on deposit from individuals.

23 (b) In the past, this Province has found some
24 difficulty in placing bond issues at or about the
25 same times that the federal government places or is about
26 to place an issue on the market. The sales of our
27 securities are also affected by the issues of other
28 provincial governments, as is only natural. We have
29 endeavoured to time our issues before or sometime after the
30 timing of any major governmental issues. As far as the
Federal Government is concerned we have been able to

in the amount of bank

to negotiate interest

considerable saving on the $\frac{1}{2}$ per cent presently

charged by the chartered banks.

(e) As for future trends in financing, it is

our present intention to pay for most capital
expenditures out of current revenues. We will certainly

have refunding issues to negotiate and probably an

issue to cover an extension of a government office

building. Beyond this, we know of no significant

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1 accomplish this in the past few years without too much
2 difficulty, as that Government seems to have developed
3 a distinct pattern in the timing of their issues. The
4 same cannot be said, however, for the issues of other
5 provinces or municipalities. Some provinces seem to
6 confine major issues to one or two in a year, while
7 others appear to come to the market continually with
8 smaller amounts.

9 (c) The yields and maturities of the
10 securities issued by this Government, which are still
11 outstanding, may be found in the schedule attached.
12 As can be seen, we like to limit the term of years
13 to less than twenty for normal capital works, such as
14 roads and bridges. In the financing of major buildings,
15 depending upon the market, we would prefer a term of
16 twenty-five years. We have not found a maturity date
17 beyond twenty-five years to be too popular with the
18 investors. Nor do we think it practical from a
19 financing standpoint, as our feeling is certainly that
20 all debts should mature well before the estimated life
21 of the project financed. Indeed, our "Town Act" limits
22 maturity dates of municipalities in this Province to
23 twenty-five years or less for any security issue.

24 3. Canadian or Foreign Borrowing

25 (a) This Government in recent years, has made
26 but one venture into the United States for borrowing,
27 as mentioned above. At that time the Canadian market
28 was not receptive to our securities, as both the
29 interest rate and exchange factors were not then in our
30 favour. This, together with the fact that Canadian
capital was not readily available to us, we were advised

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a distinct pattern in the timing of their issues. The
same cannot be said, however, for the issues of other
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investors. Nor do we think it practical from a
financing standpoint, as our feeling is certainly that
all debts should mature well before the estimated life
of the project financed. Indeed, our "Town Act" limits
twenty-five years or less for any security issue.

3. Cancellation of Foreign Borrowing

(a) This Government in recent years, has made
but one venture into the United States for borrowing,
as mentioned above. At that time the Canadian market
was not receptive to our securities, as both the
Government and the public were not in a position to
take on more debt. The situation was such that the
Government was unable to obtain the necessary funds
to carry out its program of development.



1 to place four million dollars on the United States
2 market. All other factors being equal, or even
3 slightly to the disadvantage of this Province, we would
4 prefer to borrow money in our own country. This is not
5 only for the reason of national confidence and
6 patriotism, but also for the reason that you cannot
7 determine the actual cost of foreign borrowing at the
8 time of issue. The foreign exchange rates are an
9 important part of the foreign financing costs, and these
10 cannot be predicted. While it is true that, should
11 the development of Canada continue on a more favourable
12 basis than the particular foreign country, the rates
13 could continue in our favour, the advantage gained in the
14 coupon rate at the time of issue would have to be
15 substantial to offset the risk involved.

16 (b) While our private wishes are outlined
17 in 3(a) above, there is the undeniable fact that interest
18 rates south of the border continue to be lower than those
19 in Canada. More will be said on this subject later on.
20 Despite these lower rates, however, the interest rates
21 in the United States of America for Canadian issues
22 tend to be more closely related to the interest rates
23 in Canada for these same issues, than to interest charges
24 on similar issues of any American jurisdiction. While a
25 certain premium is understandable, Canadian issues vs.
26 American issues in the United States, it is our opinion
27 that this premium in most cases more than compensates
28 the American public for the differences and the
29 inconveniences of the risks involved.

30 (c) It is very obvious that a constant or



1 relatively stable rate of exchange is of great assistance
2 in long range financial planning. It is our Government's
3 contention that the Federal Government should continue
4 its efforts to maintain the fluctuation of the Canadian
5 dollar within narrow limits.

6 4. PARITY BONDS

7 (a) We are, of course, aware of the success
8 which other jurisdictions have had in the issuing of
9 parity bonds. We believe that there is much merit
10 in such paper as a means of obtaining short term
11 funds. As stated above, this Province issues paper
12 which is somewhat similar, which we call deposit
13 receipts. These, however, are designed to be more local
14 in character and acceptance, and do not fill, completely,
15 the part taken by a formal issue of securities
16 redeemable at par plus interest after a relatively
17 short interval. Considering the fact that the Government
18 of Canada has educated the people in parity bonds for
19 many years through the Canadian Savings Bond issues,
20 we consider it unlikely that unexpectedly large
21 redemptions of such paper would come about, barring a
22 National or Provincial catastrophe. Arrangements with
23 banks or other lending agencies would have to be personal
24 to the issuing jurisdiction, but should certainly be
25 arranged well in advance to cover the eventuality of a
26 sudden increase in redemptions. Refinancing would
27 naturally be necessary, and whether of a long or short
28 term, would depend upon all the financial aspects prevailing
29 at that time. We do not consider the banks should be
30 expected to hold large sums available to governments
for indefinite periods, at the expense of other

4. PARTY BONDS

(a) We are, of course, aware of the success which other jurisdictions have had in the issuing of party bonds. We believe that there is much merit in such paper as a means of obtaining short term funds. As stated above, this Province issues paper which is somewhat similar, which we call deposit receipts. These, however, are designed to be more local in character and acceptance, and do not fill, completely the part taken by a formal issue of securities redeemable at par plus interest after a relatively short interval. Considering the fact that the Government of Canada has encouraged the people in party bonds for many years through the Canadian Savings Bond issue, we consider it unlikely that unexpectedly large redemptions of such paper would come about, barring a National or Provincial catastrophe. Arrangements with banks or other lending agencies would have to be personal to the issuing jurisdiction, but should certainly be arranged well in advance to cover the eventuality of a sudden increase in redemptions. Refinancing would naturally be necessary, and whether of a long or short term, would depend upon all the financial aspects prevailing at that time. We do not consider the banks should be expected to hold large sums available to Government for indefinite periods, at the expense of other



1 satisfactory investments.

2 5. Underwriting Arrangements

3 (a) Up until the last three years this
4 Province has been in the habit of calling for tenders
5 on any security issues. Since 1959, however, Prince
6 Edward Island has placed one issue privately (in the
7 United States) and has since operated under fiscal
8 agreements with groups of investment houses.

9 (b) Because of the geographical size and
10 location of this Province at such a distance from the
11 larger financial centres of the country, we do not consider
12 it advisable to dispense entirely with the services
13 of an investment dealer. In fact, we consider this is
14 to be one of the advantages of negotiating a fiscal
15 agency agreement, in that, they can command a very large
16 cross section of the money market. Other advantages
17 should include a lower cost of underwriting and advice
18 by way of timing, financial surveys, etc., which such
19 an agency group should be able to provide. Disadvantages
20 would include a certain reduction in the competition
21 available when public tenders are called. Again, because
22 of the size of the issues which this Province normally
23 offers, we believe that this difference would be small,
24 if any, and can, indeed, operate the other way, should
25 many other issues be offering at the same time.

26 6. Co-ordinated Borrowing

27 (a) We have mentioned above the difficulties
28 which this Province found in its search for money in
29 1959, which resulted in the private issue in the United
30 States. This Province has also had difficulties and will

1 continue to have the same difficulty in negotiating
2 loans at interest rates which are the same or only
3 slightly higher than the central provinces. We feel
4 there are several reasons for this, some of which are
5 that the amount of the individual borrowings is not
6 as large as other provinces, nor as attractive to
7 investment dealers. Correspondingly, the revenues of the
8 Province, the tax base and the population are considerably
9 smaller than other provinces. Then, again, the
10 Province is many miles away from the financial centres
11 of the nation and is not nearly as well known to the
12 general investing public. At the same time, however,
13 the security for the borrowers is, to a large extent,
14 identical with the security of any Canadian governmental
15 issue. This security is, of course, the people and the
16 prosperity of Canada. We know of no Province which has
17 gone into bankruptcy or which is presently in default.

18 It is also anomalous to us that certain
19 corporations in Canada find it possible to borrow funds
20 for long periods at lower interest rates than some of the
21 provinces. We cannot give you the reasons for this,
22 but consider it peculiar, if not detrimental, to this
23 country's standing, to have the credit ratings of
24 provinces apparently somewhat lower than the credit
25 ratings of certain corporations.

26 We have always considered the spread of interest
27 rates between the Federal Government and the Provinces
28 to be entirely out of line, and similarly unsupported
29 by the ultimate risk involved. In the final analysis,
30 the interest charges and the security for the principal



continued to be the same as in the past. It is not possible to say whether the amount of the individual borrowings is not

higher than the central provinces. We feel

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for long periods at lower interest rates than some of the

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but whether it be due, in part, to the fact that this

country is standing, to have the credit ratings of

provinces apparently somewhat lower than the credit

ratings of certain corporations.

We have always considered the spread of interest

rates between the Federal Government and the Provinces

to be entirely out of line, and similarly unsupported

by any sound economic principle. It is this that we

are now endeavoring to correct.



1 rests with the identical individuals, the Canadian
2 nation.

3 (b) We are, of course, aware that many,
4 many factors influence interest rates and bring about
5 the anomalies mentioned in Paragraph 6(a) above. At
6 the same time, however, these anomalies do exist,
7 and, we believe, much can be done to lessen their
8 impact. This Government has recommended and is
9 endeavouring to bring about a co-operation between the
10 four Atlantic Provinces in their borrowings. We have
11 suggested that these Provinces should combine in their
12 public offerings to obtain the best possible rate, and to
13 cut out any element of competition between them in the
14 financial markets. We have also suggested that the
15 combined Atlantic Provinces should seek funds at regular
16 intervals throughout the year and, preferably, offer
17 approximately the same amount on each call to the
18 market.

19 (c) We consider it not only sensible but
20 advisable to set up a similar co-operation between the
21 Federal and all Provincial Governments. We believe
22 such co-operation would, to a great extent, counteract
23 the considerable disparity in borrowing rates, not only
24 among the Provinces themselves, but between the
25 Provinces and the Federal Government. It seems to us
26 perfectly feasible to set up a central borrowing
27 agency, which will borrow funds at regular intervals in
28 amounts not only estimated to meet the current demands
29 for funds, but amounts which it is felt can be readily
30 absorbed by the money markets. This central agency



1 should be administered by the Provincial and Federal
2 Governments, and might, perhaps, be a separate division
3 under the day to day administration of the Bank of Canada.
4 This agency will in turn loan money to the co-operating
5 governments at a rate calculated to recover the borrowing
6 cost plus the expenses of issue and administration.
7 Each government authority would be required to provide
8 the agency with an estimate of their fund requirements
9 for the ensuing, say, eighteen months. The government
10 authorities would then borrow from the central agency
11 as they require, up to, but not exceeding, the amount
12 of their estimate. Temporary over-borrowing of the
13 central agency caused by borrowing in advance of the need,
14 or by the over-estimates supplied to them, would be
15 re-invested in suitable short term or other securities.
16 Penalties would also need to be worked out in the event
17 of a jurisdiction, submitting a requirement to the agency
18 and subsequently not taking it up.
19 One disadvantage of such an arrangement would
20 be the possible increase of interest rates to the Federal
21 Government. We are not sure that this will be an economic
22 fact, but it is probable that the investors will look
23 for some averaging of rates, having become so used to the
24 high rates of interest currently being paid by the
25 Provinces. Should this combination of borrowing result
26 in higher Federal rates, we are sure the agency would
27 be capable of calculating two rates to recover its
28 costs, namely, a preference rate for Government of Canada
29 requirements and an average rate for the Provinces. This
30 preference rate would be a matter for agreement. We believe

Government, and might, perhaps, be a separate division under the day to day administration of the Bank of Canada. This agency will in turn loan money to the co-operating Governments at a rate calculated to recover the borrowing cost plus the expenses of issue and administration. Each Government authority would be required to provide the agency with an estimate of their fund requirements. Authorities would then borrow from the central agency as they require, up to, but not exceeding, the amount of their estimate. Temporary over-borrowing of the central agency caused by borrowing in advance of the need or by the over-estimate supplied to them, would be re-invested in suitable short term or other securities. Penalties would also need to be worked out in the event of a jurisdiction, submitting a requirement to the agency and subsequently not taking it up. One disadvantage of such an arrangement would be the possible increase of interest rates to the Federal Government. We are not sure that this will be an economic fact, but it is probable that the investors will look for some averaging of rates, having become so used to the high rates of interest currently being paid by the Provinces. Should this combination of borrowing result in higher Federal rates, we are sure the agency would be capable of calculating two rates to recover its costs, namely, a preference rate for Government of Canada requirements and an average rate for the Provinces. This preference rate would be a matter for agreement. We believe



1 that the interest rates to all of the individual
2 Provinces would decrease as a result of the larger
3 amounts offered and the considerably greater security
4 base of the combined issues. Another so-called disadvantage
5 which we anticipate will be the often heard infringement
6 on the autonomy of the Provinces. This, in truth,
7 will not be the case as the Provinces will not be
8 forced to borrow through the central agency; if they
9 do not want the lower interest rates they may do their
10 borrowing privately.

11 7. Crown Corporations

12 (a) The principal Crown Corporations and agencies
13 of this Province would include the Prince Edward Island
14 Liquor Control Commission, the Prince Edward Island
15 Industrial Corporation, The Prince Edward Island Farm
16 Establishment Board, the Fishermen's Loan Board, the
17 Tourist Loan Board, the Workmen's Compensation Board,
18 the Public Utilities Commission and the School Supply
19 Branch of the Department of Education. All of these
20 agencies are being financed by bank accommodation and by
21 regenerating their own funds.

22 One additional Crown Corporation being planned
23 is the Prince Edward Island Crown Building Corporation.
24 It is probable that this last agency will be financed
25 eventually through long term borrowing guaranteed by the
26 Province.

27 (b) No particular financing problems, other
28 than the general problems of the Province's borrowing,
29 have been encountered by the Crown Corporations and
30 agencies.

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than the general problems of the Province's borrowing,

have been encountered by the Crown Corporations and

agencies.



1 8. Markets

2 (a) With the exception of private placements
3 and the small proportion of issues on which owners
4 request registration, we are not generally aware of the
5 owners of our securities. The one issue placed privately
6 in the United States was purchased by a group of
7 approximately twenty companies, mainly insurance
8 companies. A perusal of the registration records for
9 other issues shows a large representation of lenders,
10 private, institutional and corporate all across Canada.
11 However, by far the bulk of these securities presently
12 outstanding are in bearer form. We have always believed
13 that our securities enjoy a certain popularity within
14 the Atlantic Provinces. On the other hand, we are not
15 aware of any demand for our securities in foreign
16 countries.

17 During the past eighteen months this Province
18 has been able to establish and maintain a useful
19 connection with the short term money market. The sources
20 of funds have been confined to date to the major trust
21 companies and investment dealers with head offices in
22 Halifax, Montreal and Toronto. We have also received
23 bids on short term funds from corporations, but to date
24 these have not been successful in their rates quoted.

25 (b) We believe that a sensible co-ordination
26 of government financing, designed and timed to meet the
27 demands of the money markets in Canada and abroad, would
28 have the effect of greatly enlarging the market for all
29 Canadian Governmental securities and of increasing the
30 competition for their purchase.

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(b) We believe that a sensible co-ordination of government financing, designed and timed to meet the demands of the money markets in Canada and abroad, would have the effect of greatly enlarging the market for all Canadian Governmental securities and of increasing the competition for their purchase.



1 9. Federal Monetary Policy

2 (a) It is doubtful whether the broad
3 monetary policy of the Federal Government has as much
4 effect on our Government spending and borrowing plans
5 as on other sectors of the economy. We are aware that
6 this policy has a direct effect on the availability
7 of funds in Canada, and, consequently, on the price
8 which our citizens must pay for financing works
9 programmes. We are likewise aware of the fluctuations
10 in interest rates which accompany the level of the
11 money supply as determined by the Bank of Canada.
12 On the other hand, however, we are certainly not aware
13 of the factors considered by the Bank of Canada in
14 determining what the money supply will be. Is it a
15 certain proportion of the gross national product?
16 Is it influenced by someone's opinion of the current
17 needs of the economy? We do not know. We do anticipate
18 that this will be a subject for detailed study by the
19 members of your Commission.

20 (b) Nor can we say that the Federal monetary
21 policies are a major consideration in the operation of
22 our Crown Corporations. On the other hand, these
23 policies are certainly a major influence on the economy
24 of the Atlantic region, not only in their effect on the
25 level of business in this sector, but, also, in their
26 effect on the prices which our citizens are able to
27 obtain for their products.

28 (c) Because of the wide fluctuations in the
29 borrowing rates of the several levels of Government, we
30 consider that Federal incentives are needed. These

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1 incentives are needed, not only to increase the
2 available market for these securities, but to lower
3 the interest rates which should follow in any event.
4 One such incentive would be the provision for an income
5 tax abatement on the interest revenue from public
6 security issues of all types, be they of short or long
7 term, municipal, provincial or federal.

8 10. Regional Finances

9 (a) It would be difficult to prove that
10 any overall easing or restriction in the monetary
11 policies of the Federal Government would make itself
12 felt more in this Province than in other regions.
13 Certainly any measures which would particularly affect
14 the farming, fishing or tourist industries would be
15 felt more in this Province than in some of the other
16 Provinces of Canada, as it is on these three industries
17 that our provincial economy principally depends. It
18 is probably true to say, that during periods of
19 restriction the tourist industry is among the first to
20 be affected. We must say that vacations are closer to
21 being a luxury than a necessity, and luxuries are the
22 first to go when spending has to be curtailed.

23 (b) We believe that regional monetary
24 authorities would be of great assistance to all levels
25 of government in Canada. We feel strongly, however,
26 that all regions must be represented and represented
27 equally. We also believe that a central co-ordination
28 of the regional authorities must be made or nothing will
29 ever develop out of the recommendations from the
30 various sectors of the economy.



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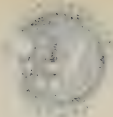
11. Local Municipalities

(a) Our government provides funds to local municipalities and incorporated villages by way of per capita grants. These per capita grants contain no restrictions as to the works or services to which they are applied. The Province also makes grants to incorporated towns for assistance in street paving, sidewalks, fire fighting equipment and other specific projects.

(b) In addition to the above assistance, the Province makes payments to the City of Charlottetown in lieu of corporation taxes, and to other municipalities in lieu of taxes on government properties and in lieu of certain works and services.

(c) Our Government exercises control over municipal borrowing through the Town Act, copies of which you may have if desired. This Act, among other things, states that the maximum debenture issue which can be made by a municipality for general purposes is not to exceed five times the amount of taxes collected in the previous fiscal year. It also states that all debenture issues for special purposes must receive the prior approval of the Minister of Municipal Affairs. Bank loans are similarly restricted by the Town Act to one-half of the total annual tax revenue.

(d) This Province is called upon at all times to guarantee the securities of cities, towns, municipalities and school boards. This guaranteed debt has now reached extensive proportions as outlined in our annual public accounts. We often wonder what effect such a guarantee



municipalities and incorporated villages by way of per
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(d) This Province is called upon at all times
to guarantee the securities of cities, towns, municipalities
and school boards. This guaranteed debt has now reached
extensive proportions as outlined in our annual public



1 has on the interest rate of the security offered.

2 Basically, we can see no real reason for a fully
3 guaranteed security bearing an interest rate any
4 different from that which the guaranteeing jurisdiction
5 could negotiate.

6 (e) We feel that much could be accomplished
7 by a closer liaison and co-operation between
8 municipalities in their ventures into the money markets.
9 We also feel that this would be much more difficult
10 to bring about than a similar co-operation between the
11 provinces, if only because of the tremendous numbers
12 of jurisdictions involved. Nevertheless, this is
13 probably all the more reason why a concerted effort
14 should be made to improve, through co-operation at least
15 on a regional basis, the financing practices of
16 municipalities. This is one area where the recommended
17 regional monetary authorities might make a very
18 effective contribution to the economy.

19 (f) Another means of assisting municipalities
20 would be the establishment of long term federal capital
21 aid programmes for the construction of schools and
22 hospitals. This programme might take the form of either
23 capital assistance grants over a period of years, or of
24 interest subsidies or a combination of the two.

25 12. Trust and Investment Companies, etc.

26 (a) This Province has many statutes regulating
27 life insurance, investment companies, credit unions and
28 the like. The statutes involved include - The Surety
29 and Guarantee Companies Act, The Corporation Securities
30 Registration Act, The Co-operative Association Act, The



...the security offered.
...to be a real reason for a shift
...the security offered in the past
...the security offered in the past

(c) We feel that much could be accomplished

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Registration Act, The Co-operative Association Act, The



1 Security Frauds Prevention Act, the Credit Union
2 Societies Act, The Trustee Act, The Insurance Act and
3 The Licensing and Registration Act. Copies of these
4 Acts are not enclosed, but we would be more than pleased
5 to supply them should you so desire.

6 These Provincial Acts are similar in content
7 to their opposite Federal statutes. Very generally
8 speaking, they provide for the registration, licensing
9 and annual returns, minimum capital structure and
10 investment policies of these types of companies.

11 (b) As we have no specific quarrel with the
12 Federal statutes, other than the dual jurisdiction, we
13 do not intend to enlarge on this section. If your
14 Commission has any specific problems in this particular
15 area, we are anxious to assist and will direct the
16 particular government department involved to answer
17 and provide any information which you would like.

18 (c) Certainly the divided jurisdiction is,
19 to say the least, cumbersome, and we feel that the
20 central authority should be charged with the regulation
21 of interprovincial corporations. However, as the activities
22 in this Province of the various investment and investing
23 companies are quite limited when compared with other
24 jurisdictions, we are not prepared to make any specific
25 recommendations for change at the present time.

26 13. Canadian Banking System

27 (a) While we have no quarrel with the adequacy
28 of the service rendered by the banking community, we are
29 not aware of any real competition between the various
30 banks. The services offered by each bank are pretty

Prudential Insurance Act, the Credit Union
Act, The Trusts Act, The Insurance Act and
the Licensing and Registration Act. Copies of these
Acts are not enclosed, but we would be more than pleased
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of interprovincial corporations. However, as the activities
in this province of the various investment and investing
companies are quite limited when compared with other
jurisdictions, we are not prepared to make any specific
recommendations for change at the present time.

(d) While we have no quarrel with the adequacy
of the services rendered by the banking community, we are
not aware of any real competition between the various
banks. The services offered by each bank are pretty



1 well identical. The Banks, themselves, do compete
2 with each other for customers accounts, but this seems
3 to center principally around the salesmanship and
4 personality of individual bank managers and their staff.

5 (b) The chief competition to banks for savings
6 accounts would seem to stem from activities of Trust
7 companies. The interest rates and hours of service
8 which these companies are offering to depositors are
9 more attractive than those permitted by the Canadian
10 Bankers Association, or the Bank Act. Trust companies
11 similarly seem to be able to offer short term funds
12 at rates appreciably lower than those approved by this
13 same Association.

14 (c) With the recent flurry of bank amalgamation
15 over the past few years, what competition exists between
16 banks becomes less and less. We suggest that for this
17 reason alone any further reductions in the number of
18 banks offering their services is not in the best interests
19 of the country at large.

20 (d) The Government of this Province is also
21 concerned with the recent tendency for banks to acquire
22 substantial interests in major Trust companies. We
23 contend that one of the results of banking control of
24 these institutions could be a lessening of the competition
25 which presently exists between these two types of financial
26 institutions. We cannot see that further large invest-
27 ments in Trust Companies by banks would be of any
28 benefit to the public at large.

29 (e) We submit that one of the reasons why
30 Trust companies are able to offer more attractive savings



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(d) The Government of this Province is also concerned with the recent tendency for banks to reduce substantial interest in their Trust companies. We cannot see that further large investments in Trust Companies by banks would be of any benefit to the public at large.

(e) We submit that one of the reasons why companies are able to offer more attractive savings



1 and loan interest rates must be the lower overhead
2 carried by these institutions. All Canadian banks
3 carry a tremendous investment in premises and staff.
4 In the larger centres it is quite usual to find a
5 branch bank on each of the four corners of a busy
6 intersection.

7 While this perhaps assists the banks in their
8 personal competition for a customer's account, we can see
9 no advantage to the general public, particularly, when
10 we consider that the services of each and every bank
11 are basically identical.

12 (f) We suggest that legislation be amended
13 where required and the Canadian Banking Association be
14 administered to provide individual banks or branches
15 with more say in the running of their own affairs. As
16 a means of reducing their overhead and of competing
17 with Trust companies, we suggest that the banking
18 community could establish suburban "currency exchanges"
19 as an alternative to a branch of every Canadian bank in
20 every locality.

21 These currency exchanges could be managed
22 under the direction of the Canadian Bankers Association
23 and would be a co-operative effort of all banking houses.
24 Business hours could be arranged to coincide with the
25 practice of local merchants and to the convenience of
26 smaller businesses and local residents. Arrangements
27 could be made for deposits and withdrawals at these
28 currency exchanges through the bank with which the
29 customer wishes to deal.

30 While it is not expected that a complete



carried by these institutions. All Canadian banks carry a tremendous investment in premises and staff. In the larger centres it is quite usual to find a branch bank on each of the four corners of a busy intersection.

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1 banking service would be provided by these currency
2 exchanges, we contend that this service is
3 not necessary in the surburban areas where such an
4 establishment would be practical. We see no reason,
5 however, why these exchanges could not receive deposits
6 and honour withdrawals of all kinds, make up payrolls,
7 pass cheques and notes, sell money orders and savings
8 bonds, and, in general, handle nearly all of the banking
9 services required by the smaller business man, other
10 than loans, safekeeping facilities and foreign exchange.

11 14. Investments of Provincial Boards and Institutions

12 (a) Provincial Boards and Institutions may
13 invest funds in any securities approved under the
14 Trustee Act. Investments approved by this Act are as
15 follows:

16 1. Any stocks, public funds, bonds, debentures
17 or securities of the Government of Canada or of the
18 Bank of Canada;

19 2. Any stocks, public funds, bonds, debentures
20 or securities of any Province of Canada;

21 3. Any bonds, debentures or securities the
22 principal whereof is guaranteed by Canada or by any
23 Province of Canada;

24 4. First mortgage securities on real estate
25 in this Province;

26 5. Any debentures or securities of the capital
27 city of Canada or of the capital city of a Province of
28 Canada, or of the Town of Summerside, or of any city of a
29 population of fifty thousand or over in the Provinces
30 of Ontario, Quebec, New Brunswick or Nova Scotia;



...be provided by these currency

...that this service is

...

...

...

and monies withdrawn of all kinds, make up payrolls,

pass cheques and notes, sell money orders and savings

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services required by the smaller business man, other

than loans, safekeeping facilities and foreign exchange.

14. Investments of Provincial Bonds and Institutions

(a) Provincial Bonds and Institutions may

invest funds in any securities approved under the

Trustee Act. Investments approved by this Act are

as follows:

...

or securities of the Government of Canada or of the

Bank of Canada;

2. Any stocks, public funds, bonds, debentures

or securities of any Province of Canada;

3. Any bonds, debentures or securities the

principal whereof is guaranteed by Canada or by any

Province of Canada;

4. First mortgage securities on real estate

in this Province;

5. Any debentures or securities of the capital

city of Canada or of the capital city of a Province of

Canada, or of the

...

...



6. Any debentures or debenture stock or
guaranteed investment certificates of:

(i) Canada Permanent Mortgage Corporation.

(ii) The Eastern Trust Company;

(iii) Acadia Loan Corporation;

(iv) Nova Scotia Savings, Loan and Building
Society;

(v) The Montreal Trust Company;

(vi) The Royal Trust Company.

7. With the approval of the Court, an
insurance policy on the life of the cestui que trust, his
wife or child;

8. Debentures and debenture stock, deposit
receipts, certificates and accumulating interest
debentures of The Eastern Canada Savings and Loan
company;

9. First mortgage bonds or debentures of the
Prince Edward Island Hospital or the Prince County
Hospital.

The investments of the Provincial Superannuation
Funds, the Workmen's Compensation Board, and the
Provincial Sinking Funds, Unsatisfied Judgment Fund
and Insurance Reserve Fund are somewhat more restricted
than the above, and, in addition, require the prior
approval of the Provincial Treasurer before purchase.

(b) Copies of the statutes and regulations
governing the Prince Edward Island Industrial Corporation,
the Industrial Establishment Promotions Board, the Tourist
Accommodation Loan Board, the Farm Establishment Board
and the Fishermen's Loan Board are available for your
information if required. The Government of this Province



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ment certified of:

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and Insurance Reserve Fund are somewhat more restricted

than the above, and, in addition, require the prior

approval of the Provincial Treasurer before purchase.

(u) Copies of the statutes and regulations

Accommodation Loan Board, the Farm Establishment Board

action is required.



1 has taken an active part in encouraging and developing
2 all types of industry in the Province. The financial
3 encouragement is afforded by means of loans extended
4 at bank interest rates for periods of up to twenty-five
5 years. In the case of Fisheries, Industrial or Tourist
6 Establishments, loans can be obtained of up to 50 per
7 cent of the cost of boats, motels, property, etc.
8 Farm Establishment loans are extended up to 85 per cent
9 of the appraised value of the properties. The governing
10 statutes also provide for outright grants, but this is
11 rarely done in practise.

12 This Province has also entered into financing
13 arrangements with industrial companies under which
14 processing plants have been erected, or partially financed
15 on a long term rental or lease back basis.

16 (c) With the exception of Fishermen's Loans,
17 our Government's entry into the direct loan business
18 has been fairly recent. Fishermen's loans have been
19 available for more than twenty-five years, but the
20 industrial, agricultural and tourist loans have only
21 been made during the last ten years or less.

22 (d) Our Government has financed these loans
23 in three ways - (1) From its own general revenues; (2) By
24 Bank accommodation; (3) By short term Borrowing. We
25 feel that we are approaching the point where additional
26 funds will be regenerated through repayments of past
27 loans.

28 (e) We cannot correlate the activities of
29 these loanboards to any fiscal policy. However, the
30 activity is regulated to a certain extent by the loan
policies of the Federal Government towards small

activity in the Province. The financial

system is supported by means of loans extended

bank interest rates for periods of up to twenty-five

cent of the cost of boats, motors, property, etc.

From 1941-1942 loans are extended up to 25 per cent of the appraised value of the properties. The Government

statutes also provide for outright grants, but this is

very rarely done in practice.

This Province has also entered into financial

processing plants have been erected, or partially financed

on a long term rental or lease back basis.

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bank accommodation; (3) By short term borrowing. We

feel that we are approaching the point where additional

loans will be regenerated through repayments of past

loans.

(e) We cannot correlate the activities of

these loan boards to any fiscal policy. However, the

activity is regulated to a certain extent by the loan

board itself.



1 businesses and by the Industrial Development Bank.
2 We have been surprised on numerous occasions by
3 individuals applying to our Government for loans who
4 had been refused by the Industrial Development Bank.
5 While we were pleased to extend credit to the projects
6 proposed, we consider them to be a reasonable risk,
7 in which, apparently, the Industrial Development Bank
8 did not concur. On other occasions, of course, funds
9 were not then available from the Industrial Development
10 Bank or Farm Credit Bureau.

11 We find it natural that the loan policies
12 at the chartered banks must be more restricted than
13 government agencies. At the same time, we believe
14 that a more convenient way of obtaining loans must
15 be developed with the various agencies of the Federal
16 Government. We are certainly aware that there will be
17 some increase in the risk involved. At the same time,
18 we know of no bank which has not, and does not, experience
19 occasional losses, despite their stricter policy.

20 (f) One area of federal policy which affects
21 every level of business, and, indeed, government, is the
22 customs tariff. We are not sure that this subject can
23 properly be considered within the terms of reference
24 of your Commission. We think you will agree with us,
25 however, that the customs tariff structure has become,
26 to say the least, unwieldy and difficult of administration.
27 It is our opinion that your Commission should at least
28 press for an overall review and consolidation of the
29 customs tariff to the ultimate assistance of business
30 and trade in general.



15. The Bank Act

(a) Our Government does not have any particular quarrel with the provisions of the Bank Act, other than our recommendations set out above. We would like however, to take this opportunity to make the following specific recommendations of a more or less technical nature:-

Sections 58 of the Bank Act should be redrafted to require the publication of the annual statements of banks in all localities where branches are maintained. This section should also require the publication of annual statements of operations, together with the report of the Banks' Auditors on these statements.

Section 93 of the Bank Act should also be expanded to include, in the exemptions from charges for cashing cheques or other instruments, the Provinces and Territories of Canada, and any agency of any Province or Territory. This would give formal recognition to the present practice of banks in excluding such jurisdictions from these charges.

(b) The Bank Act presently provides a maximum rate of 6 per cent per annum on loans made. We consider this ceiling should continue and recommend that no increase be permitted in this rate.

(c) Because of the limitations placed on banks by this statute, we also recommend that more

(a) Our Government does not have any

similar quarrel with the provisions of the Bank Act, other than our recommendations set out above. We would like, however, to take this opportunity to make the following specific recommendations of a more or less technical nature:-

Section 28 of the Bank Act should be redrafted to require the publication of the annual statements of banks in all localities where branches are maintained. This section should also require the publication of annual statements of operations, together with the report of the Banks' Auditors on these statements.

Section 29 of the Bank Act should also be expanded to include, in the exceptions from charges for cashing cheques or other instruments, the Provinces and Territories of Canada, and any agency of any Province or Territory. This would give formal recognition to the present practice of banks in excluding such jurisdictions from these charges.

(b) The Bank Act presently provides a maximum

rate of 6 per cent per annum on loans made. We consider this ceiling should continue and recommend that no increase be permitted in this rate.

(c) Because of the limitations placed on



1 direct control on the lending policies of all types
2 of financial institutions be effected. Such
3 institutions would include Trust Companies, Finance
4 Companies, Acceptance Companies, and all others who
5 directly or indirectly loan funds to the public.

6 An example of a simple means of more effective
7 control would be the mandatory inclusion in all documents
8 of the effective rate of interest charged per annum.



Page 10

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Nethercut & Young

Toronto, Ontario

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STATEMENT OF FUNDED AND NET FUNDED DEBT

As at March 31, 1961

Date of Issue	Term of Years	Rate of Interest	Maturity Date	Denomination	Gross Funded Debt	Sinking Fund Accumulated to March 31, 1961	Net Funded Debt
Nov. 1, 1946	15	2 3/4%	Nov. 1, 1961	500. &	\$ 750,000.	\$ 422,471.51	\$ 327,528.49
Dec. 15, 1948	13	3 1/4	Dec. 15, 1961	500. &	1,000,000.	459,970.67	540,029.33
Mar. 15, 1947	15	2 3/4	Mar. 15, 1962	1,000.	1,000,000.	544,324.91	455,675.09
June 15, 1960	2	2	June 15, 1962	1,000.	1,350,000.	32,062.50	1,317,937.50
Dec. 15, 1949	14	3	Dec. 15, 1963	500. &	2,000,000.	829,431.71	1,170,568.29
Feb. 15, 1954	10	4	Feb. 15, 1964	500. &	2,500,000.	821,998.39	1,678,001.61
Oct. 1, 1950	15	3	Oct. 1, 1965	500. &	1,250,000.	474,976.73	775,023.27
Mar. 1, 1956	10	3 3/4	Mar. 1, 1966	500. &	1,700,000.	282,430.47	1,417,569.53
Dec. 1, 1952	15	4 1/4	Dec. 1, 1967	500. &	1,500,000.	434,645.22	1,065,354.78
May 15, 1959	10	5 1/4	May 15, 1969	500. &	250,000.	14,331.56	235,668.44
June 1, 1954	15	3 1/4	June 1, 1969	500. &	1,300,000.	300,365.61	999,634.39
June 15, 1960	10	5 1/2	June 15, 1970	500. &	2,650,000.	62,937.50	2,587,062.50
Mar. 1, 1957	17	5	Mar. 1, 1974	500. &	2,500,000.	326,972.14	2,173,027.86
Nov. 15, 1957	20	4 1/4	Nov. 15, 1977	1,000.	2,000,000.	213,233.85	1,786,766.15
May 15, 1959	20	5 1/4	May 15, 1979	500. &	1,250,000.	71,657.81	1,178,342.19
Dec. 1, 1959	20	5 3/4	Dec. 1, 1979	1,000. 10,000.	3,880,000.	41,640.00	3,838,360.00
				25,000.	U.S.A.		
Dec. 15, 1959	20	6 1/4	Dec. 15, 1977/79	100,000. 1,000.	1,600,000.	62,574.00	1,537,426.00
					\$28,480,000.	\$5,396,024.58	\$23,083,975.42

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Royal Commission on Banking and Finance

Hearings
held at
Halifax

Vol.
22

Date.
June 11 1962



Official Reporters
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Toronto, Ont.



15

Government of Nova Scotia



Nethercut & Young

Toronto, Ontario

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Government of Nova Scotia

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The Nova Scotia Credit Union League

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Saint Francis Xavier University
Extension Department

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ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Halifax,
Nova Scotia, on Monday,
June 11th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

AND FINANCE

Hearings held at Halifax.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Investment Dealer

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Agricultural
Calgary, Alberta

Mr. Paul H. Lemar

Mr. John C. MacKen

Dr. W.A. MacKintosh
Vice-Chancellor

Secretary -



Halifax, Nova Scotia
Monday, June 11th, 1962.

On commencing at 9.15 A.M.

THE CHAIRMAN: I will call the meeting to order. We are very pleased to be in Halifax today. This will be the last of our public hearings in the provincial capitals. We began in Victoria and have finally arrived in Halifax.

I understand that the province of Nova Scotia is prepared to submit their brief today. We have received copies of the brief and all the members have read it and find there are a great many points of interest we would like to explore to some extent, and with your permission the various members may wish to ask questions after you have made your general submission.

Mr. Premier, it is a very great honour to have you present today. We are very much indebted to you for being here personally, and we know you will be of great assistance to us.

SUBMISSION OF THE PROVINCE OF
NOVA SCOTIA

APPEARANCES

The Hon. Mr. R. Stanfield - Premier
Mr. John Bigelow - Director of Research.

HON. MR. STANFIELD: Mr. Chief Justice
and members of the Commission, perhaps before getting



I will call the meeting to
 This will be the last of our public hearings in the
 provincial capitals. We began in Victoria and have
 finally arrived in Halifax.

I understand that the province of Nova Scotia
 is prepared to submit their brief today. We have
 received copies of the brief and all the members have
 read it and find there are a great many points of
 interest we would like to explore to some extent, and
 with your permission the various members may wish to
 Mr. Premier, it is a very great honour to
 have you present today. We are very much indebted
 you for being here personally, and we know you will
 be of great assistance to us.

SUBMISSION OF THE PROVINCE OF

NOVA SCOTIA

APPEARANCES

Mr. John Dignow
 - Director of Research

HON. MR. STANFIELD: Mr. Chief Justice

and members of the Commission, perhaps before getting



1 down to business I would like to welcome you to the
2 province on behalf of the government. We have all
3 noted your progress from capital to capital and you
4 are certainly most welcome here in Halifax and in
5 the province. The problems of finance are always
6 complex, and I know most of us are well over our heads
7 in this field, and I know it is the hope of citizens
8 from one end of the country to the other that your
9 Commission will find itself able to reach some
10 satisfactory solutions. I do not know how much the
11 government of Nova Scotia can contribute to the enlight-
12 enment in this field, but we are happy to receive the
13 opportunity to present a submission and some views
14 to the Commission.

15 I think when any of us in this province think
16 in terms of financial and monetary problems we tend
17 naturally to think of the general economic problems
18 of the area and of the province. I assume that these
19 problems go considerably beyond your terms of reference
20 and certainly involve questions of fiscal policy as
21 well as questions of strictly financial and monetary
22 policy. So that, we do not presume this morning to
23 burden you with our economic problems here in the
24 larger sense of the term. We have tried in our
25 submission to outline the general problems of the
26 province, in our industry, in terms of finance and
27 monetary policy. We certainly have reviewed the financial
28 requirements and we are certainly concerned with the
29 increasing attention that has to be given by government
30 to economic and social problems. I would like to emphasize,

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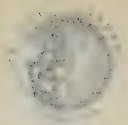
requirements and we are certainly concerned with the

increasing attention that has to be given by Government

to economic and social problems. I would like to emphasize



1 as I think we have tried to emphasize in our
2 submission, that our financial problem is not strictly
3 one of being able to borrow sufficient sums of money.
4 Our financial problem, strictly speaking, is where
5 to find adequate sources of revenue to discharge our
6 responsibilities. I am not suggesting the province of
7 Nova Scotia is in any way peculiar in this sense.
8 It is simply an attempt to indicate that our problems
9 are problems of revenue rather than problems of being
10 able to borrow enough money. We have indicated in
11 our submission, while we are not entirely happy about
12 the price we have to pay for our money, and while
13 markets have occasionally been difficult for us, by
14 and large we have been able to borrow certainly as
15 much money as we ought to, and some people might argue
16 more than we ought to. We take part in the national
17 economic processes, and naturally we wish to be as
18 well equipped as possible to provide a reasonable
19 standard of services for our people. I emphasize again,
20 however, this is more a matter of revenue than ability
21 to borrow. We are, however, concerned with the way the
22 capital markets function because we have to play our
23 part in attempting to adjust the behaviour of our
24 economy. We are anxious there will be the utmost
25 co-ordination of all levels of government towards
26 goals of national economic growth and stability. We have
27 tried to carry out our responsibilities in a prudent
28 manner. We attempt to provide the services that are
29 required in a province such as this with a growing
30 economy. Of course, to do this we have to tax, to spend,



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1 and at times we have to borrow, and essentially our
2 municipalities are in the same position; and until
3 now at least it has been possible to obtain through
4 taxation and prudent borrowing -- and I should emphasize
5 here through assistance in the tax sharing agreements
6 and special grants from the Government of Canada --
7 we have been able to acquire the necessary funds to
8 discharge our responsibilities, but of course we find
9 the cost of borrowing to be high.

10 In this field -- and I will be as brief as
11 I can, we recommend more co-ordination between governments
12 with the objective of stimulating long-term economic
13 growth through the provision of adequate federal funds
14 to carry out counter recession policies during down
15 swings in the business cycle.

16 We would like to see all possible ways
17 explored to improve the timing and size of provincial
18 debenture issues coming on the capital market and,
19 as I think we have indicated in our submission, we would
20 be quite unhappy to see any centralized authority
21 established that would tell us when we could go to the
22 market and how much we could go for. We would not be
23 happy to be in a position of having someone else
24 determine what we could borrow and when we could borrow
25 it, though we would be happy to see a full exchange
26 of information and informal attempts of co-ordination
27 short of what we would consider perhaps to be dictation.

28 We would like to see also, if it is possible,
29 a federal loan fund created for municipalities to use
30 for constructing facilities of some national importance,



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1 such as schools and hospitals. I do not think this
2 involves a new programme exactly, because the federal
3 government is already in the field of assisting, for
4 example, with sewer construction and with grants towards
5 hospital construction. I think we would be perhaps
6 here particularly concerned with some of our
7 municipalities which would be considered less fortunate
8 than others which perhaps had difficulties in raising
9 the necessary money to provide what would be considered
10 essentials in the way of schools and that sort of thing.
11 We have, as we have indicated in our submission, a
12 municipal loans fund ourselves -- the province -- and
13 we also assist in borrowing money for projects financed
14 over a long term such as water and sewers.

15 We also have a hospital loan fund. These
16 could become a serious responsibility for the provinces
17 and we would welcome any further assistance that
18 could be provided through a federal government loan
19 fund operating in these fields.

20 When we come to the private sector of the
21 economy, I think it is true to say, as we have attempted
22 to say in our submission, that the capital needs of
23 this sector of the Nova Scotia economy at least for
24 a generation have not been fully met by the traditional
25 capital institutions. Loans to small business enterprises,
26 tourist accommodation, agriculture and fishermen, and
27 in recent years for larger industrial enterprises, had
28 to be made available -- or, at least, were made available
29 and I think had to be, by the government of the province
30 in order to maintain, even at that, an economic growth

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1 rate somewhat below the national average. There will
2 be future growth in these needs in the years ahead.
3 Incidentally, ~~Intrust in our~~ submission we have paid
4 adequate tribute to the role of the Industrial Develop-
5 ment Bank in the province in recent years, but even
6 so we have found it necessary to remain active in some
7 of these fields, as we have outlined in the submission.
8 We believe there will be future growth in these needs
9 in the immediate years, and should some extraordinary
10 effort be made to bring our growth rate here up to
11 the national average, these credit needs will be very
12 large indeed. It does not put much of a strain on
13 the credit resources of the province to conduct the
14 sort of financial operations in the private sector
15 that we have been, but if it became essential, for one
16 reason or another, to provide some large capital advances
17 to large industries, the province might be faced with
18 the alternative of either declining to enter that field
19 at all or over-taxing its credit rating.

20 There is, I think, some basis for the belief
21 that if there were an increase in the general develop-
22 ment rate here it would be necessary for large-scale
23 credit to be made available to industries on a larger
24 scale, and this might very well confront the government
25 of the province with a difficult position. Furthermore,
26 we anticipate that there will also be future periods
27 of credit restriction nationally and, as we have indicated
28 in our submission, we expect that as in the ~~past~~, unless
29 some change is possible, these restrictions will bear
30 heavily on the business in this region, and we have



1 attempted by making reference in our submission to a
2 study by Professor Cairncross to indicate how we believe
3 on the basis of his advice these policies have worked
4 themselves out in the past.

5 So, we would recommend with respect to
6 a more flexible form of credit control that the borrowing
7 credit needs of different areas of Canada should be
8 recognized so that the adverse effect from national
9 restrictions on credit as a result of national policy
10 will not further depress any area which does not suffer
11 from over-expansion of credit at the time.

12 We would also like to see more precise and
13 reliable statistical data available so that a government
14 attempting to improve the planning and functioning of
15 its economy will have available to it the most factual
16 and recent data. We would embark, for example, on a
17 new development here in our province: We propose to
18 enter the field of planning with a view to establishing
19 the targets for our various industries and devise in
20 association with those industries methods of achieving
21 such targets, and our thinking there is based to some
22 extent on the French type of planning, but certainly
23 if we are to make progress in this field we must develop
24 a reliable and precise statistical data and we would
25 hope that we could receive co-operation from those
26 outside the province.

27 We would also like to see the field of
28 agriculture, the federal farm improvement loan maximum
29 of \$7,500 be raised to \$10,000. This province, through
30 its Land Settlement Board has been very active in our

now we believe

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a reliable and precise statistical data and we would

hope that we could receive co-operation from those

outside the province.

We would also like to see the field of



1 agricultural credit for a long time and I think I may
2 say particularly in recent years." Our role has been
3 principally in the area of settlement or helping people
4 acquire farms under proper circumstances but our role
5 has been quite active. We would like to see the maximum
6 of credit on the part of the federal agency be increased
7 and, if practical, we would like to see something
8 established like a single line of credit for commercial
9 farmers.

10 We also feel it is desirable to pool, so far
11 as is possible, the resources of the federal agency
12 and our own provincial agency in this field.

13 As I have indicated if the situation develops
14 where our economy may begin to extend more rapidly,
15 for instance, in the field of secondary industry
16 we might find ourselves as a government in the position
17 of having to borrow large sums of money for industrial
18 capital which may in turn affect the credit of the
19 province. Therefore, we are indeed anxious and we do
20 recommend that the federal government make available
21 large blocks of industrial loan capital at low interest
22 rates, if possible, and for long terms to any area which
23 needs this type of industrial improvement.

24 We have indicated in our brief that we have
25 in the past found it necessary to assist small secondary
26 industry with loans. We have considered it desirable
27 to enter into the lease back field through Industrial
28 Estates Limited and we have been highly successful
29 in this field of operation.

30 We would recommend that loan capital be



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1 made available, as we have indicated, in larger blocks
2 in any area where this could be demonstrated. The
3 Industrial Development Bank is certainly playing an
4 active part in this field in small loans. There is
5 an impression here that the Industrial Development
6 Bank is perhaps restricted to a considerable extent to
7 a small type of loan. Consequently, we do not see any
8 national agency of that sort active in the field of
9 larger loans. It appears to us this is a deficiency
10 in the present institutional arrangements.

11 Mr. Chief Justice, briefly those are our
12 thoughts, and if we can be helpful at all in answering
13 any questions or getting any information for any member
14 of the Commission, we would be pleased to try.

15 THE CHAIRMAN: Thank you very much, Mr.
16 Premier.

17 COMMISSIONER BROWN: I wonder if I may start
18 with a question of a fairly general nature. This
19 artificial infusion of capital that is apparently
20 required in the area of both on the municipal and
21 private sector basis, do you see this as something that
22 can be accomplished over a short period with larger
23 amounts that can generate its own repeat development,
24 or is this something that you see as a continuing
25 long-term requirement of the area, and also in what
26 sort of sums are we talking?

27 HON. MR. STANFIELD: If I might distinguish
28 between the municipal and private sector, which I
29 think may be governed by some different considerations,



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HON. MR. STANFIELD: If I might distinguish

between the municipal and private sector, which I
think may be governed by some different considerations.



1 I would find it difficult to answer the question on
2 the municipal aspect of it in any satisfactory way.
3 My impression is that municipalities which are stagnant
4 have problems of one type of financing, and those that
5 are growing rapidly have another type which seems
6 difficult to them in many ways, but I would not like
7 to express any opinion as to whether the municipal
8 capital would be a long-term problem or not. With us
9 it would be a problem as long as we had areas in the
10 province which were having particular difficulty like
11 some of our municipalities in our traditional coal
12 mining areas, and it would be difficult to say how long
13 that would last.

14 On the other hand, it may be that
15 municipalities that are growing will find it increasingly
16 difficult to finance the services they are required to
17 give. I think it would be just speculation on my part
18 to attempt to forecast what the future requirements
19 of our municipalities would be, but the situation is now
20 that we have some of our municipalities, particularly
21 in the traditional coal mining areas -- which have
22 difficulty in providing the normal essential municipal
23 services, and they do require capital for that purpose.

24 In the private sector I would like to
25 emphasize that the government of Nova Scotia does not
26 regard the provision of capital as sufficient in itself
27 to produce any marked economic expansion in this
28 province. It seems to us that some agency could come
29 along tomorrow and make a very large sum of capital
30 available, and that might not change the picture at all.



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... available, and that might not change the picture at all.



1 There might be nobody around in a position to use any
2 substantial amount of that. It is our view that the
3 provision of capital by itself would not induce any
4 particular industrial expansion.

5 It is the province's view that other measures
6 would have to be taken in association with that,
7 measures of the sort which are indicated by Professor
8 Cairncross in the study he made for the four Atlantic
9 provinces, measures which I think are outside the
10 strict field of your Commission, perhaps, such as grants
11 to reduce the settling in costs of certain types of
12 industry. It is our hope that these measures will be
13 taken, and our point is that if they are taken, then
14 the need for large blocks of capital would become
15 urgent. How long it would be necessary for a government
16 agency to supplement the ordinary financial processes
17 of the country in this province, I don't know. That
18 would depend, it seems to me, upon how long it would
19 take for us to develop financial institutions in this
20 area comparable to those available in, say, Central
21 Canada -- and I am not suggesting they are not also
22 available in other parts of the country also -- and
23 again, it would only be a guess on my part, Mr.
24 Commissioner. I hope I am speaking to the point you
25 have in mind.

26 COMMISSIONER BROWN: I just wanted it in
27 general, because I think later on we will probably be
28 getting down to something more particular in both these
29 areas, but first I wanted to see if you had any greater
30 detail.



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1 On the provincial government borrowing, in
2 one part in your brief you imply there is a definite
3 limitation to the amount that the province can borrow
4 no matter what the rate, and in another section the
5 statement is made that there is no limit provided you
6 pay the price -- paragraphs 11 and 32. I wonder if
7 you could tell us which one is the more predominant?

8 HON. MR. STANFIELD: If we have given the
9 impression there is no limit to the amount we could
10 borrow if we are prepared to pay the price, certainly
11 we have not intended to give that impression. We have
12 not had real difficulty to date in borrowing the money
13 we have set out to, or decided to borrow. We could
14 borrow more than we have, but I think there is a limit
15 to the amount the province of Nova Scotia could borrow.
16 I would not like to say just where that limit is, and
17 I think we could quite quickly find out if we set out
18 to borrow just as much money as we could. I think we
19 would get into an area where we could for a while borrow
20 more if we were prepared to pay more. Then I think we
21 would get over the limit where we could borrow any more
22 money under any reasonable circumstances at all. Frankly,
23 I could not indicate -- and I don't think anybody could,
24 at least, in the government -- what the limit is, and
25 the limit would move a bit with the amount we were
26 prepared to pay to get some money, but we certainly
27 would not like to indicate that we believe that the
28 sky is the limit provided we are prepared to pay enough.

29 COMMISSIONER BROWN: In other words, you have
30 not run across the situation where you went out to borrow



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one part in your brief you imply there is a definite



1 the sum of \$X million and were advised you should cut
2 this down?

3 HON. MR. STANFIELD: No, we have never had
4 the experience of being advised that we could not borrow
5 what we had set out to borrow. Mind you, it may be
6 that in working out a year's financial operation that
7 at any one time it may be suggested that with the market
8 as such we might be wise in that particular operation
9 to limit our issues to \$10 million instead of \$12 million
10 or \$15 million, and have another issue later on during
11 the year. But we have never even approached the position
12 where any financial institution has indicated to us
13 that we could not achieve our year's objective -- and
14 I hope, Mr. Commissioner, that we do not.

15 COMMISSIONER LEMAN: I would like to understand
16 a little more clearly what your approach has been: You
17 claim that the difficulty at least until now has not been
18 the difficulty of borrowing what you have needed -- and
19 certainly your brief seems to say that, and you say that
20 the principal problem is to find the adequate sources
21 of revenue to carry the current expenditures of the
22 government plus the service of the debt already incurred.
23 Has it been your general approach to date that borrowing
24 should be for capital expenditures only -- no deficit
25 financing by this province?

26 HON. MR. STANFIELD: Our approach has been
27 precisely that. When you say no deficit financing, there
28 has been the odd year since the war when the province
29 has had a modest deficit. Those have been exceptional.
30 The attitude of the present government is that our fear



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COMMISSIONER LEMAN: I would like to understand

a little more clearly what your approach has been: You

claim that the difficulty at least until now has not been

the difficulty of borrowing what you have needed -- and

certainly your brief seems to say that, and you say that

the principal problem is to find the adequate sources

of revenue to carry the current expenditures of the

government plus the service of the debt already incurred.

Has it been your general approach to date that borrowing

should be for capital expenditures only -- no deficit

financing by this province?

HON. MR. STANFIELD: Our approach has been

precisely that. When you say no deficit financing, there

has been the old year since the war when the province

has had a modest deficit. Those have been exceptional.



1 would be for one thing that any series of deficits
2 in the province would tend to undermine our credit
3 rating and increase the cost of borrowing. So,
4 consequently we believe it is highly important to the
5 province that we operate on a basis of a balanced
6 budget. That is our belief. We borrow only for capital
7 projects. We would like to get into a position where
8 we could borrow money only for what might be called
9 revenue-producing items. For example, an improved
10 highway, if properly conceived, is revenue-producing;
11 it tends to increase our motor vehicle revenues, our
12 gasoline revenues, over a period of years, and that
13 revenue tends to provide an opportunity to service
14 the debt. It is perhaps a personal view of mine, but
15 I think borrowing for that purpose is more productive --
16 well, it is not a question of being more productive --
17 but we are a little happier about borrowing money
18 for an item of that sort than for an institutional
19 purpose which is very worthwhile but which will probably
20 be in the form of further expenditure rather than
21 producing revenue in the years ahead. This is not
22 a clear-cut conception, but certainly our policy here
23 is to borrow only for capital purposes.

24 Mr. Commissioner, you said we had stated we
25 had been able to meet our needs and so on to date. I
26 don't think I would have to emphasize that, when one says
27 we have met our needs, it depends what one means by
28 "our needs". We certainly haven't provided the
29 standard of roads and the standard of hospitals and
30 schools and so on that all our people in the province



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1 would consider satisfactory, by any means, and if we
2 had the revenues to finance them there are many other
3 measures we would like to take, because they are
4 urgently needed. For example, we have not been able
5 to do anything like we should be doing in the university
6 field in Nova Scotia. So, when you say we suggest
7 in the brief we have been able to discharge our
8 responsibilities to date, I certainly would not want
9 anyone to think we feel we have been able to do every-
10 thing we think we ought to have been doing or be doing
11 to meet the needs of the province, but what we have been
12 able to do to date is to present a budget to the House
13 meeting the needs we decide we can meet, and we have
14 been able to present a reasonably balanced budget
15 to the Legislature over a period of years. I wish to
16 emphasize to you there are many more things we would
17 like to do, and the people of the province, rightly
18 I think, believe it is urgent. There is no argument,
19 for example, about the university field -- the need
20 for more assistance there.

21 COMMISSIONER LEMAN: As I understand you,
22 Mr. Premier, you say that you class certain endeavours
23 by the province as revenue producing, and therefore
24 over a reasonable period as self-liquidating and able
25 to carry the extra debt created to put them in place.
26 Up to now, on the other hand, you say you have not been
27 able to do everything you felt you would like to do.
28 Have you not been able to do everything you felt
29 was reasonably self-liquidating?

30 HON. MR. STANFIELD: Oh, yes, I think that is



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HON. MR. STANFIELD: Oh, yes, I think that is



1 right. That is another way of asking me whether
2 we have been able to borrow as much money as we thought
3 we should borrow.

4 COMMISSIONER LEMAN: Well, yes. What has
5 been the limitation. In other words, have there been
6 some desirable expenditures by the provincial government
7 that were, according to your standards -- and I am
8 accepting your standards now -- that were desirable,
9 and which limitations on your credit, etc., have prevented
10 you from doing? That is what I would like to get at.

11 HON. MR. STANFIELD: No, I think we have said
12 in the submission, and I would stand by it, that as
13 far as the province of Nova Scotia is concerned I think
14 we have been able to borrow -- this has been my
15 experience -- we have been able to borrow money we felt
16 we ought to try to borrow.

17 COMMISSIONER LEMAN: Now, when you approach
18 this private sector -- help the private sector with
19 capital, would you also institute some kinds of tests
20 that would satisfy you that this help in providing
21 capital for industry would also be self-liquidating
22 from the point of view of the government and producing
23 additional revenue?

24 HON. MR. STANFIELD: We have tried to do that
25 through establishing, for example, in connection with
26 the Industrial Loan Board, to which reference has been
27 made in our submission -- we have acquired the services
28 of competent business people on that board, and the
29 government has followed the policy of not making any
30 loans to industry/except on the recommendation of that board,

COMMISSIONER LEWIS: Well, yes. What has

In other words, have there been

some serious expenditures by the provincial government

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1 with two exceptions: One is under the Industrial
2 Development Act where quite modest loans have been made;
3 they haven't been a factor at all in connection with
4 our provincial credit -- and certain coal mining
5 operations where the decision was made there by the
6 government without reference to the Industrial Loan
7 Board, but, by and large, with these probably minor
8 exceptions the government acts on the advice of a
9 competent board, and it is our experience, by and large,
10 that these loans would liquidate themselves. Perhaps
11 in some cases the board makes loans which a private
12 institution would not feel justified in making, with
13 perhaps a greater element of risk, to some extent.
14 By and large, it is our expectation that loans made
15 in this field would be self-liquidating. Industrial
16 Estates, for example, would be a self-financing operation.

17 COMMISSIONER BROWN: You say that both historically
18 and traditionally you have borrowed only in the long-term
19 market and also that you have not explored the very
20 short-term market -- the parity market. We are wondering
21 about this historical and traditional attitude.

22 HON. MR. STANFIELD: As regards the long-term
23 market, I think it would be fear on our part to become
24 involved in probably too many short-term commitments.
25 We have been exploring the short-term markets to some
26 extent, but we would feel reasonably comfortable in
27 having a modest amount, and we do now have a modest
28 amount of steady commitments, and we would be quite
29 happy to have a certain amount of it turning over and
30 revolving on a short-term basis, but, rightly or wrongly,



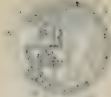
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1 we would be nervous if our short-term commitments
2 reached the point where we would have difficulty in
3 funding them if it became necessary -- nervous about
4 putting ourselves in the position where we could become
5 embarrassed by having to meet a substantial block of
6 short-term commitments under conditions where we were
7 helpless to manoeuvre. In other words, supposing we
8 have \$20 million worth of short-term commitments and
9 the market conditions became such rather quickly that
10 we had to do something about those. Market conditions
11 at that time might also be such that it would be difficult
12 for us to refinance those short-term commitments.
13 We may wish to avoid getting in any such position as
14 that, and frankly we would be nervous about any such
15 prospect developing, though I think we recognize that
16 under ordinary conditions at least short-term interest
17 rates are lower than longer term. That was not the
18 situation for a short period a couple of years ago,
19 but normally we expect that to be the case. Normally
20 we do have some short-term obligations out, but the
21 only answer I can give you as to why we don't go into
22 it more heavily would ^{be} nervousness as to finding ourselves
23 involved in difficulties if the market became difficult.
24 We would not, for example feel easy here -- I won't
25 make that comment; it might reflect on somebody else.

26 COMMISSIONER BROWN: At the moment you do go
27 through the routine of bank borrowing and moving into
28 a Treasury Bill basis?

29 HON. MR. STANFIELD: Normally, yes. Sometimes
30 we go directly from the bank to the long-term market, but



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1 ordinarily there would be a Treasury Bill -- quite
2 frequently there would be a Treasury Bill between the
3 bank overdraft and the long-term borrowing.

4 COMMISSIONER BROWN: Do you find that Treasury
5 Bill market as a provincial market, or do you have to
6 go to Montreal and Toronto?

7 HON. MR. STANFIELD: Our Treasury Bill market
8 is pretty much confined to the banking system to date.
9 We have been exploring the past few years the possibility
10 of developing a market for province of Nova Scotia
11 Treasury Bills. We could turn over a volume of \$5
12 million or \$10 million outstanding most of the time.
13 If we were going to develop that sort of market we
14 always recognize we would have to keep a steady flow
15 so that a person wanting security would know it was
16 coming onto the market regularly. Until recently we
17 received no encouragement that any substantial market
18 for our Treasury Bills could be developed. Now the
19 situation has changed somewhat, but traditionally the
20 province has sold its Treasury Bills to banks.

21 Treasury Bills issued, other than banks in
22 1961-62 was \$8 million. In this year, 1962-63, to date,
23 it is \$1,500,000. Outstanding at the moment, \$1,500,000.

24 COMMISSIONER BROWN: You are able to get a
25 better rate than the ordinary rate for your short-term
26 borrowing thereby?

27 HON. MR. STANFIELD: Very little; but, it
28 has been the banking system.

29 COMMISSIONER BROWN: On municipal issues there
30 is a reference made that the control of municipal issues



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... COMMISSIONER BROWN: On municipal issues there

... is a reference made that the control of municipal issues



1 is in the hands of the Minister of Municipal Affairs.
2 The question I would like to ask, because it is not
3 clear in the brief, is whether he has absolute control
4 over whether the municipality shall borrow or not,
5 or is it simply to see they comply with the statutory
6 provisions?

7 HON. MR. STANFIELD: I think I am right in
8 saying that the Minister of Municipal Affairs can
9 disapprove of a municipal issue. He has to approve it,
10 and if it is not considered a proper issue he could
11 disapprove of it. Normally it is a matter of timing,
12 but also if he believes that the issue is larger than
13 the municipality should seek, he has the authority to
14 act accordingly.

15 COMMISSIONER BROWN: In considering the
16 timing of such issues, does he take into account monetary
17 policies that are currently being imposed by federal
18 authority?

19 HON. MR. STANFIELD: I am not sure I
20 understand.

21 COMMISSIONER BROWN: Well, put it another
22 way: Does he tend to disallow such borrowing during
23 times of high interest rates?

24 HON. MR. STANFIELD: I think it may be more
25 help to you in this field if we get the Deputy Minister
26 of Municipal Affairs before you, and you can question
27 him on this area. I can only give you my impressions.
28 We would be happy to bring Mr. Moseley over later on
29 if you wish to go into this field.

30 COMMISSIONER BROWN: We are very interested in



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HON. MR. STAMMILL: I think I am right in

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COMMISSIONER BROWN: We are very interested in



1 the effects of monetary policy on the capital market,
2 and one of the things that does come in is the
3 extent to which borrowers are dissuaded by upward
4 changes in the interest rate.

5 HON. MR. STANFIELD: I would be happier,
6 I think, if we could bring Mr. Moseley in.

7 COMMISSIONER GIBSON: Can we ask on the same
8 question as it relates to the provincial government's
9 policies -- as to how high interest rates affect that?

10 HON. MR. STANFIELD: I think I would have to
11 answer that our borrowings have been governed by our
12 needs rather than by interest rates. I don't think
13 I can honestly say that the higher interest rates have
14 had any effect other than to make us constantly aware
15 of the high cost of borrowing. I think I would in
16 all frankness have to say that to date we have been
17 governed by our needs and what we think we can finance.
18 Of course, indirectly because the higher interest rates
19 increase our costs there is an indirect effect of the
20 high interest rates on our programme. So, I could not
21 honestly say we have been dissuaded to date from
22 financing any particular project because of high interest
23 rates.

24 COMMISSIONER GIBSON: There has been no
25 failure to carry out projects that might have come along
26 or deferring them, and that sort of thing?

27 HON. MR. STANFIELD: I think it would only
28 take effect over a period of time. It would be a
29 psychological effect which would be difficult to measure.
30 But the simple truth is that there are so many projects



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1 that are most desirable, if we can finance them at
2 all, that any given year we have to decide what is
3 possible for us to do and go ahead and do it.

4 COMMISSIONER GIBSON: Is that the reason
5 that you made these two excursions to the American
6 market in 1956 and 1960 -- that money was a bit hard
7 to raise in Canada?

8 HON. MR. STANFIELD: I can't say about 1956,
9 but the most recent one ...?

10 COMMISSIONER GIBSON: Early 1960.

11 HON. MR. STANFIELD: Early 1960: The Canadian
12 market was difficult for us at that time. My recollection
13 is that there was about a full percentage point on what
14 we thought we could borrow money for in Canada and
15 what we could do in the States. The American market,
16 of course, is much more flexible. Generally speaking
17 the Canadian market, if you want to borrow for 18 or
18 20 years, apparently you could only arrange for a call
19 provision in the last two or three years. In this
20 American issue, we have a number of alternatives: You
21 can call at the end of 10 years at what would seem to
22 us to be a modest premium which meant we were not paying
23 these high interest rates for 20 years -- we could call
24 it. We were able to make a sinking fund arrangement
25 which provided for us making equal annual payments
26 over the whole life of the issue so that we were not
27 running the risk of having to face a heavy discount
28 of the Canadian dollar at the end of the 20-year period.
29 This way we were spreading the risk over the 20-year
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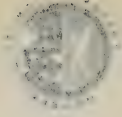
1 old United States issue falling due, we didn't feel
2 we were increasing our U.S. commitments appreciably,
3 and because of that, and because we would have to pay
4 substantially higher at that time, and because of the
5 inflexible arrangement available to us, we did that;
6 but I have always been nervous about involving the
7 province too much in the way of U.S. dollar commitments.

8 THE CHAIRMAN: Mr. Premier, you apparently
9 on your books show a current account and a capital
10 account: In the financing of capital do you find
11 sometimes you are able to pay for a portion of that
12 out of revenue?

13 HON. MR. STANFIELD: Yes, we feel that we
14 have to, that unless we can do that to a considerable
15 extent there is really very little chance that we can
16 arrange for the capital projects on an adequate scale.
17 If we cannot borrow -- if we cannot hope to borrow
18 and should not borrow everything we need for something
19 which might by some reasonable definition be called
20 a capital project, I would fear if we tried to do that
21 we would either strain our credit or get involved too
22 heavily in interest. So, it does enable the government
23 to attempt to pay for some of these capital projects
24 out of current revenues. Some years we won't be able
25 to do anything. Other years we are able to do a fair
26 amount.

27 THE CHAIRMAN: What might it go up to -- what
28 one-third, or one-quarter?

29 HON. MR. STANFIELD: I don't know it would ever
30 get up to more than one-quarter. You know, Mr. Chief



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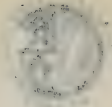
get up to more than one-quarter. You know, Mr. Chief



1 Justice, there are difficulties that governments have
2 in connection with surpluses and paying for capital
3 projects out of current revenue, but I have stressed
4 it in budget speeches in the House, and so on, since
5 it is purely a matter of government policy that we
6 must if we are to continue with certain programmes
7 pay for part of these out of current revenue. In the
8 year ending March 31, 1961 I don't think we were able
9 to pay any capital out of current. The previous year
10 we were able to pay a substantial amount. I would
11 have to refresh my memory as to that.

12 THE CHAIRMAN: I don't know that the exact
13 figures are so important. I just wanted to get a
14 general impression of the policy in that respect. You
15 keep a sinking fund?

16 HON. MR. STANFIELD: Oh yes, all our issues ,
17 except very short-term issues are on a 3 per cent sinking
18 fund basis. Our Power Commission are on more than a
19 3 per cent basis because the Power Commission establish
20 a sinking fund. We borrow the money for our Power
21 Commission and loan it to the Commission. Once we
22 borrow that money for the Commission we immediately set
23 up a 3 per cent sinking fund on our own. The Power
24 Commission in its turn establishes a more modest sinking
25 fund since it does it over a longer period of time, but
26 the net effect is that our Power Commission borrowing
27 is substantially more than 3 per cent. I hasten to add
28 the Power Commissioners are not paying; the Power
29 Commission customers are paying for the more modest
30 sinking fund over there, but the province as a whole is



difficulties that governments have
in connection with employees and paying for capital
projects out of current revenue, but I have stressed
it in budget speeches in the House, and so on, since
it is purely a matter of government policy that we
must if we are to continue with certain programmes
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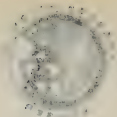
1 really pre-financing it. That is something we are
2 taking a look at.

3 COMMISSIONER BROWN: In other words, there
4 is a double sinking fund on these particular issues?

5 HON. MR. STANFIELD: Yes.

6 COMMISSIONER LEMAN: Premier Stanfield,
7 one of your recommendations is that through co-operation,
8 information and that sort of thing you would like the
9 market for provincial and perhaps municipal borrowing
10 to be improved in general, but your distinction of
11 what would be needed there seems a little imprecise
12 to me. Could you help us understand a little more
13 clearly what you think could be done to achieve this
14 goal?

15 HON. MR. STANFIELD: I don't know we could
16 do very much more, in our view, than to provide a full
17 exchange of information. Some steps have already been
18 taken in this direction. There is some exchange of
19 information now, but I don't think we have anything
20 more in mind here than each one knowing what the other
21 is likely to be doing and see that we don't cross each
22 other up. Of course, you get a certain amount of
23 information from underwriters. If you talk to them
24 they usually know what is going on, and it has not
25 been too often lately that we have found ourselves in
26 difficulty that way, but I think that is all we have
27 in mind by what we call co-ordination. We certainly
28 would not want to be in the position where someone else
29 could say to us, "You are not going to borrow that
30 amount of money this year." It may sound strange that



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1 the provincial government could say that to the
2 municipalities, but to have someone say it to us, we
3 would not be too happy about it -- someone outside the
4 province being able to tell us what we could do.

5 COMMISSIONER LEMAN: Well, that is normal:
6 Legally you do have jurisdiction over your municipalities.

7 HON. MR. STANFIELD: That is right.

8 COMMISSIONER LEMAN: They are creations of
9 the province, whereas nobody has authority over you
10 in this field. But you are not suggesting a formal
11 arrangement -- a big borrower for Canada to help with
12 governmental financing problems or anything of that
13 sort of thing?

14 HON. MR. STANFIELD: No, I don't think so.

15 COMMISSIONER LEMAN: You are just suggesting
16 that amicable co-operation could help in this field?

17 HON. MR. STANFIELD: Yes.

18 COMMISSIONER GIBSON: You spoke also of
19 fiscal policies: Do you mean by that, co-ordination
20 of economic policies with a view to avoiding recessions?

21 HON. MR. STANFIELD: Yes, I think that is
22 what we have in mind -- all going in the same direction
23 at the same time.

24 COMMISSIONER GIBSON: Have you any specific
25 points there, apart from Professor Cairncross's points,
26 you would like to stress?

27 HON. MR. STANFIELD: No, I don't think I
28 would to try to elaborate on that too much.

29 COMMISSIONER MacKEEN: What type of agency
30 have you in mind for the exchange of information between



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HON. MR. STAMFIELD: No, I don't think I

would to try to elaborate on that too much.
Have you mind for the exchange of information between



1 the provinces and the Dominion as to the timing of
2 issues?

3 HON. MR. STANFIELD: I don't know, Mr.
4 MacKeen ---

5 COMMISSIONER MacKEEN: How would such
6 information go from one to the other?

7 HON. MR. STANFIELD: We would not have any
8 hesitation in Nova Scotia indicating to the federal
9 government and other provinces how much money we
10 proposed to borrow in 1963 and from time to time as
11 we go through the year, indicating some time in advance
12 of our intent to borrow so much money in the next three
13 months, or something of that sort.

14 COMMISSIONER MacKEEN: Have you considered
15 using the facilities of the Bank of Canada, say?

16 HON. MR. STANFIELD: That would be fine, but
17 I think all that would be required would be a willingness
18 on the part of the various bodies concerned to disclose
19 their intentions quite frankly. I think that might
20 be possible.

21 COMMISSIONER LEMAN: We have been informed
22 that the Bank of Canada has not acted for any province
23 as fiscal agent as yet, but do you know whether any
24 province ever did ask the Bank of Canada -- "We now
25 think we shall need to borrow \$25 million in 1963.
26 What do you have to suggest as to when we should do it?"
27 Has it ever been tried?

28 HON. MR. STANFIELD: I could not answer that
29 question so broadly. I can say I don't think in my
30 time here that we have ever approached the Bank of Canada



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time here that we have ever approached the Bank of Canada



1 in this regard. I don't think we ever thought it
2 was the job of the Bank of Canada to help us in that
3 respect.

4 COMMISSIONER LEMAN: What form would the
5 amicable co-operation take?

6 HON. MR. STANFIELD: Well, it might very well
7 take that form. I understood you to be asking me
8 whether, for example, we had ever approached the
9 Bank of Canada in this respect.

10 COMMISSIONER LEMAN: Yes.

11 HON. MR. STANFIELD: And my answer would be,
12 so far as I know, that at least in my time here we
13 have not, because we didn't feel the Bank had any
14 particular responsibility towards us in that regard.

15 COMMISSIONER LEMAN: And except in times of
16 very stringent conditions in the market, such as we
17 saw in 1959 and 1960, have there been great problems
18 regarding timing?

19 HON. MR. STANFIELD: No, I would not want
20 to push this too hard. It is just a suggestion we
21 make. From time to time there are conflicts and
22 complications. This has not been an area of great
23 difficulty for us because, as I say, we have usually
24 been able to keep pretty well informed by discussions
25 with underwriters. We usually know what issues may be
26 overhanging the market.

27 COMMISSIONER BROWN: May I revert a little
28 to the question Mr. Gibson asked. You do say in paragraph
29 46, "Appropriate federal policies that would tend to
30 encourage provincial deficits in a period of declining



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to the question Mr. Gibson asked. You do say in paragraph

46, "Appropriate federal policies that would tend to

encourage provincial deficits in a period of declining



1 economic activity nationally would be an added factor
2 to accomplish the national aim of more stable economic
3 growth." What sort of federal policies do you have in
4 mind?

5 HON. MR. STANFIELD: I don't think we had
6 in mind more than federal policies which would encourage
7 provincial spending -- expenditures in such a time,
8 but I don't think we had in mind more than perhaps
9 an elaboration of some federal policies that have
10 already been adopted, such as winter works programmes
11 and that sort of thing, and we would not want to push
12 this too far because, as I have already indicated,
13 as far as Nova Scotia is concerned, we don't think we
14 can spend continually provincial deficits without having
15 our credits suffer.

16 THE CHAIRMAN: Of course, you are speaking
17 of deficits on current account?

18 HON. MR. STANFIELD: Yes.

19 THE CHAIRMAN: A provincial government is
20 in quite a different position from the federal government
21 as to deficit financing?

22 HON. MR. STANFIELD: Yes.

23 THE CHAIRMAN: You could get into a dangerous
24 situation very quickly if you incurred a series of
25 provincial deficits on current account.

26 HON. MR. STANFIELD: Yes, we would not be
27 bothered too much here by a deficit in one year, for
28 example. We would not like to try to continue that
29 for any length of time.

30 COMMISSIONER MacKEEN: We have heard elsewhere,



growth." What sort of federal policies do you have in mind?

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COMMISSIONER MACKENZIE: We have heard elsewhere,



1 Mr. Premier, of provincial difficulties following along
2 where there are cost shared programmes with the federal
3 government, and the federal government has increased
4 the payments made where there are joint ventures, and
5 without consulting the province it was raised or
6 increased: Do you find any embarrassment from such
7 action?

8 HON. MR. STANFIELD: It may very well be.
9 Certainly there are some fields of government activity
10 where a change in federal policy means inevitably the
11 province has to follow suit.

12 COMMISSIONER MacKEEN: We have heard this
13 referred to in connection with such things as unemployment
14 relief and things like that.

15 HON. MR. STANFIELD: Normally, I think, a
16 province welcomes the federal activity in these fields,
17 but certainly it can happen that a federal policy in
18 this shared programme field -- it can put the provincial
19 government in a position where it either goes along,
20 perhaps with some financial embarrassment, or it suffers
21 the fate of unpopularity. It may confront the provincial
22 government with a hard choice.

23 COMMISSIONER GIBSON: Going back to this
24 question of co-ordinating economic policies: Thinking
25 of it from the province's point of view, can or does
26 the province build up what you might call a shelf of
27 needed and desirable works that it could put into action
28 fairly quickly in the event of a recession, or does it
29 pretty much do the things it has to do as it goes along?
30 I get that impression from what you said earlier.



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1 HON. MR. STANFIELD: Yes, we don't plan
2 projects well in advance, but the programme in some
3 fields, of course, takes and years and years of
4 planning. In others you can elaborate a tentative
5 plan very rapidly. For example, in the field of
6 vocational education, the federal government a year ago
7 offered to pay 75 per cent of the cost of vocational
8 education facilities. Once we made some policy decisions
9 here as to what we should do, it took time as to where
10 a school should go and so on, then there were some
11 negotiations with the municipalities involved, but once
12 those were settled we were able to go ahead quite rapidly
13 by adopting a uniform plan pretty much for a certain
14 type of building and using that in several locations.
15 Actually, we are going to have some trouble finishing
16 some of these schools before the federal deadline on
17 March 31st next, but we have quite a large programme
18 going quite quickly by adopting a uniform plan.

19 COMMISSIONER GIBSON: So there is some stability
20 in the expenditures.

21 HON. MR. STANFIELD: Yes.

22 COMMISSIONER GIBSON: I suppose this is found
23 in the amount of highway building.

24 HON. MR. STANFIELD: I would think there would
25 be a great deal of flexibility there. Mind you, if
26 we are going to bargain a major highway project, there
27 is a great deal of planning in a major highway project
28 with regard to your route and all sorts of things.
29 On the other hand, the smaller projects -- improving
30 certain existing roads, and so on -- those could be



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1 launched, I would think, at quite short notice, and
2 there would be a great many projects, highly desirable
3 projects, that we could undertake in this province
4 quite quickly if we knew how to finance them, and I
5 emphasize here not only finance the building of them
6 but operate them after they are built.

7 COMMISSIONER GIBSON: So, if you were to
8 receive federal aid as an anti-recession measure, how
9 would you find it most convenient and efficient from
10 the province's point of view -- just to get a certain
11 proportion, or a lower interest rate, or do you like
12 the idea of having it geared towards certain kinds of
13 expenditure?

14 HON. MR. STANFIELD: We would like to have
15 all the latitude in the world ourselves. I think you
16 asked me what we would like: We would like to be able
17 to do what we think is most urgent.

18 COMMISSIONER GIBSON: And most efficient from
19 the province's point of view?

20 HON. MR. STANFIELD: Yes, that is right, and
21 we would also like to be able to relate what is proposed
22 to what it is going to cost us afterwards. We are
23 delighted to have the 75 per cent towards these
24 vocational schools, but the problems arises for us
25 to meet the operating expenses for the schools, and
26 that can arise in a good many different types of
27 project, but unquestionably, as far as we are concerned,
28 we would like to have money available to us and let us
29 spend it in some manner satisfactory to the federal
30 authorities. We would much prefer that to a cut and



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1 dried federal proposal. We don't expect to get what
2 we want, but we would urge the maximum degree of
3 flexibility in any federal offer.
4

5 ---- A short recess.

6 THE CHAIRMAN: We will resume.

7 COMMISSIONER BROWN: Mr. Premier, you
8 mentioned that you had an aversion to borrowing for
9 other than self-liquidating purposes or, put it this
10 way, you had less hesitation in borrowing for self-
11 liquidating purposes than for other purposes. I wonder
12 if you could give us a picture in general terms of
13 how much of your total debt falls into this self-
14 liquidating category and how much might not be regarded
15 as in that category?

16 HON. MR. STANFIELD: I would have to do a
17 little research, Mr. Commissioner, to give you anything
18 accurate at all. Of course, a certain amount of our
19 borrowing is for loans to municipalities and loans to
20 private sectors, the Fishermen's Loan Board, the
21 Farmers Loan Board and Industrial Estates Board. We
22 would regard that as self-liquidating. By far the
23 bulk of the balance would be for highway purposes.

24 COMMISSIONER BROWN: Power Commission?

25 HON. MR. STANFIELD: Power Commission, yes --
26 something over \$40 million to the Power Commission.
27 These are all subtracted from the gross debt and to
28 calculate the net debt of the province by our independent
29 auditors. Then, there is approximately \$170 million
30 that we consider the net provincial debt. That is the



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that we consider the net provincial debt. That is the



1 gross debt less the self-liquidating loans to the
2 Power Commission and to municipalities and to industry.
3 Of the \$170 million all I would say at the moment would
4 be that the great bulk of it would be money spent over
5 the years for highway purposes. I think we would have
6 to make some calculation to determine just how much
7 that would amount to but it would be for highways and
8 the rest of it would be for institutional purposes like
9 teachers' colleges, and government hospitals and that
10 sort of thing. But most of that \$170 million net debt
11 would be in connection with highways.

12 As I think I indicated earlier I tend to
13 feel that if properly expended highway expenditures
14 are self-liquidating over a period of time in the sense
15 that they are at least revenue producing, that as we
16 improve our highway the car utilization increases and
17 our revenues from gasoline tax and various motor vehicle
18 licenses increases etc.

19 COMMISSIONER BROWN: Probably the biggest
20 impetus is in opening new areas and that sort of thing?

21 HON. MR. STANFIELD: Yes, and make it possible
22 for the roads to carry the traffic in a more satisfactory
23 way.

24 COMMISSIONER LEMAN: To go back a minute to
25 municipal financing, would you regard it as a possibility
26 that the municipal loan fund could act as a type of
27 agency that would help municipalities in the first place
28 to finance? As you say, some of them have difficulty
29 placing debentures on the market. Do you think the
30 Municipal Loans Fund could take portions of this and then



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1 roll them over into the market?

2 HON. MR. STANFIELD: As our own obligations
3 or as municipal obligations?

4 COMMISSIONER LEMAN: As municipal obligations.

5 HON. MR. STANFIELD: Oh, Mr. Commissioner,
6 to some extent. We have not done that. I am not sure
7 in what way it would ^{be} easier for us to roll them over
8 than for the municipalities to sell them in the first
9 instance.

10 COMMISSIONER LEMAN: Well, would they be
11 guaranteed debentures?

12 HON. MR. STANFIELD: Well, in effect they are
13 a provincial debenture. As a matter of fact we have
14 not been guaranteeing any municipal debentures, not
15 within my time here. We either make them a loan from
16 some fund of our own or they go to the market.

17 COMMISSIONER LEMAN: Well, in paragraph 30
18 you mention that it has \$6 $\frac{1}{2}$ million available?

19 HON. MR. STANFIELD: Yes.

20 COMMISSIONER LEMAN: I can imagine that
21 \$6 $\frac{1}{2}$ million could be absorbed fairly quickly and then
22 what would the province do -- raise the amount or try
23 to regenerate by trying to let some of those borrowings
24 into the market somehow and then start all over again?

25 HON. MR. STANFIELD: I think it is fair to
26 say that the fund is quite strictly administered by
27 the Department. It is used where the municipality
28 itself cannot use the market for the time being. All
29 I can say is that we have not so far at least provided
30 direct loan capital to municipalities on a large scale.



put them over into the market?

HON. MR. STANFIELD: As our own obligations

or as municipal obligations?

COMMISSIONER LEMAN: As municipal obligations.

HON. MR. STANFIELD: Yes, sir.

to some extent. We have not done that. I am not sure
in what way it would be easier for us to roll them over
than for the municipalities to sell them in the first
instance.

HON. MR. STANFIELD: Well, in effect they are

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1 We have done it to the extent of these funds and we
2 have not guaranteed their issues.

3 COMMISSIONER LEMAN: Is this fund loaned
4 up now or not completely?

5 HON. MR. STANFIELD: Fairly well, pretty
6 well used up to the maximum. As a matter of government
7 policy we would not hesitate to increase the size of
8 that Fund by a few million dollars if it appeared to
9 be necessary to meet something essential but we would
10 not want to get into the position of becoming generally
11 responsible for providing the loan capital required
12 by municipalities. We would be reluctant to establish
13 ourselves as an authority to whom the municipality comes
14 for money and to have ourselves rather than the market
15 generally regulate what they can borrow.

16 COMMISSIONER LEMAN: Well, is the reason for
17 that the fact that you think that would press your
18 credit too much because presumably the province can
19 borrow somewhat more advantageously than the individual
20 municipalities especially if you do not guarantee?

21 HON. MR. STANFIELD: One reason for that
22 would be the fact that we would have to establish ourselves
23 as the judge as to whether or not the municipality
24 should raise money for a particular project. We do
25 that now in the Department of Municipal Affairs to
26 the extent that the Minister of Municipal Affairs has
27 to decide whether or not a municipality may borrow and,
28 if so, how much but under our existing situation the
29 municipality knows that if it becomes imprudent it will
30 get itself into the position where it will not be able



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1 to borrow money and we would be reluctant to get the
2 provincial government into the position where it is up
3 to us to provide the money to the municipality and
4 where the municipality would feel that it does not have
5 to behave prudently any longer; it is no longer concerned
6 with its reputation for its prudence or its credit
7 rating because it can go to the Government of Nova
8 Scotia and obtain the money that is required. We would
9 not want to be put in that position and we do not think
10 that would be a good position for the provincial
11 government and we do not think it would be a good position
12 for a municipality over a period of time.

13 COMMISSIONER LEMAN: The discipline of market.

14 HON. MR. STANFIELD: I think we have tried
15 to emphasize that in our submission. The discipline
16 of the market, in our view, is important. We do not
17 push that to the full extent because we recognize that
18 not only are there certain long-term projects like
19 sewer commitments which could quite easily be financed
20 over a 40-year period and yet could not be financed
21 by the municipality over a 40-year period. We realize
22 that is one type of question. We recognize there are
23 municipalities which are having difficulties supplying
24 necessary facilities through no fault of their own
25 and that fund is used to assist them. But I think I
26 can speak for the government in saying we would be
27 reluctant to assume too much discipline of the market
28 in regard to municipal financing.

29 COMMISSIONER GIBSON: Coming back to the question
30 referred to this morning in regard to long-term consideration



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1 when the municipalities borrow how does the pattern
2 of the market work?

3 HON. MR. STANFIELD: Well, Mr. Chief Justice,
4 I asked Mr. Harrington, the Commissioner of Finance
5 with the Department of Municipal Affairs, to come
6 here. The Minister and the Deputy Minister unfortunately
7 are away although I think Mr. Harrington can provide
8 any information that is required. Perhaps if I might
9 ask him if it has your permission to deal with the
10 question of details relating to the Department of
11 Municipal Affairs in connection with approving or not
12 approving municipal applications for permission to borrow
13 money from the market. Mr. Christie is also here.
14 He is of the Department of Municipal Affairs and has
15 dealt for the Department in connection with these
16 issues. Mr. Christie, Mr. Gibson is interested in
17 knowing whether national fiscal and monetary policies
18 have any effect on municipal borrowing or have any
19 effect on the decision of the Department with respect
20 to municipal borrowing. I think he is interested in
21 whether restricted markets or higher interest rates
22 affect the attitude of the Department or the attitude
23 of the municipalities. Perhaps I should not presume
24 to interpret Mr. Gibson's questions.

25 COMMISSIONER GIBSON: That is quite correct,
26 sir, -- or vice versa.

27 MR. CHRISTIE: Well, the interest rate on
28 the national market -- well, I believe ours are a bit
29 lower than other places in Canada.

30 HON. STANFIELD: I think what Mr. Gibson would



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1 like to know is whether the Minister of Municipal
2 Affairs would be more apt to refuse a municipality
3 permission to borrow because interest rates are higher
4 than if they were low or does the Minister simply
5 say: "Well, if it is a legitimate purpose you want to
6 borrow money for go ahead and borrow it", or does he
7 go further than that?

8 MR. CHRISTIE: Well, the municipalities are
9 not refused. Sometimes they are obliged to wait until
10 a different time. It is up to the province, of course,
11 if they feel -- if certain times are bad they might be
12 asked to wait. We cannot assure them whether their
13 interest rates will go up or down. If their demand
14 comes they will probably go on the market when the
15 rates are high.

16 COMMISSIONER GIBSON: But is it your impression
17 that municipalities cut back their capital spending
18 plans when money is expensive or defer capital expenditure
19 plans at these times or is it the kind of operation that
20 goes ahead anyhow?

21 MR. CHRISTIE: They do cut back to a very
22 small degree. If they have something they feel they
23 need to go ahead with they will go ahead.

24 COMMISSIONER GIBSON: How about the pattern
25 if interest rates are high?

26 MR. CHRISTIE: I think they would defer it
27 for perhaps a year. I do not think they put an awful
28 lot together.

29 COMMISSIONER GIBSON: You do not feel there
30 is too much resistance from the taxpayer in the

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is too much resistance from the taxpayer in the



1 municipality because of the higher debt servicing
2 charges?

3 MR. CHRISTIE: No, I do not think so.

4 COMMISSIONER BROWN: Well, does the Department
5 ever instruct them to defer because of high interest
6 rates?

7 MR. CHRISTIE: No, they do not instruct them.
8 They might try to persuade them.

9 THE CHAIRMAN: Well, does the Department
10 actually approve or disapprove of particular municipal
11 projects because of the financial situation of the
12 municipality? Does the Minister have that sort of
13 power in Nova Scotia?

14 MR. CHRISTIE: He has that power, yes sir.

15 THE CHAIRMAN: And do all of these municipal
16 borrowings have to be approved by the Minister?

17 MR. CHRISTIE: That is right, sir.

18 THE CHAIRMAN: And I suppose the Minister
19 in deciding whether a certain issue should be approved
20 or not looks at the total financial position of the
21 municipality, the outstanding debt, the interest paid
22 on that outstanding debt, the various projects that
23 are under consideration for the future and the likely
24 further monies that will have to be raised and the
25 cost of the monies for the present project that is put
26 before him for approval and then decides how that
27 might affect the tax rate and if, in looking at the
28 whole position, he thinks it will cost more money than
29 the municipality can reasonably meet he refuses to
30 approve. Is that more or less the way he exercises his



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1 power?

2 MR. CHRISTIE: That is right.

3 THE CHAIRMAN: So that if there was an
4 increase in interest rate which added something to
5 the cost of the proposed project and it put the cost
6 of it over and above what he ordinarily would approve,
7 it might result in disapproval for the time being?

8 MR. CHRISTIE: That is right, sir.

9 HON. MR. STANFIELD: He certainly has the
10 authority.

11 THE CHAIRMAN: He has the authority and he
12 looks at the whole cost and I suppose it does not
13 matter to him whether part of the cost is interest or
14 something else. If the whole cost is too much in his
15 view under all the circumstances then he refuses and
16 it may be that it is the increase of interest rate which
17 is in some cases at any rate the determining factor
18 for the time being at any rate?

19 HON. MR. STANFIELD: I think generally speaking,
20 I think Mr. Christie would agree, that the Minister relies
21 more on the process of persuasion and the discipline
22 of the market. I think generally speaking that is true
23 but there would be times when he would refuse authority
24 but he would rely more, I think, on persuasion and
25 warning and ultimately I think on the discipline of the
26 market and the fear as to what the reception to the
27 municipal issue would be by the market.

28 THE CHAIRMAN: Yes, and if the interest rate
29 is unusually high -- and most of these debentures, I
30 suppose, run for 20 years?

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MR. CHRISTIE: That is right.



1 HON. MR. STANFIELD: A lot of our debentures
2 run from one to 15 years.

3 MR. CHRISTIE: One to 20 years.

4 THE CHAIRMAN: So that it would add quite a
5 bit to the local cost if the interest rates were high
6 and he might persuade them to postpone until the interest
7 rate may fall. That is the general way this problem
8 is faced, is it not?

9 HON. MR. STANFIELD: Yes.

10 COMMISSIONER LEMAN: Is the money raised
11 by municipalities in general -- there may be exceptions --
12 but is it generally raised in the Nova Scotia market
13 or does it go out to the Nova Scotia market, most of
14 it?

15 MR. CHRISTIE: To a great extent it is raised
16 by the brokers here. We are not always sure where it
17 is sold.

18 HON. MR. STANFIELD: I think it is mainly in
19 Nova Scotia but I think over the years (Mr. MacKeen is
20 an expert in this field) but if I may say so I think
21 the municipalities in Nova Scotia have had a preferred
22 market. Under our Trustee Act as it was for many years
23 they had a preference over other municipal issues in
24 other parts of Canada and I think generally speaking
25 the rates which the municipalities in parts of Nova Scotia
26 paid for very many years was not attractive to borrowers
27 outside the province. Mr. MacKeen can tell you more
28 about that.

29 COMMISSIONER MacKEEN: I think you are correct,
30 sir.



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1 COMMISSIONER LEMAN: If the province had
2 some need -- Mr. Premier, you said you did not want
3 to make too much of this but you did indicate that
4 there could be some improvement in the way of timing
5 so far as the provincial way of hitting the national
6 capital market was concerned. Is this one of the
7 functions of the Department of Municipal Affairs here
8 in Nova Scotia, to provide this service of timing?

9 HON. MR. STANFIELD: That would be a very
10 important part of their function, Mr. Christie, for
11 the Department to arrange the timing of municipal issues
12 in Nova Scotia and tell them when they could go to
13 the market and when they should not go.

14 MR. CHRISTIE: That is why we have been able
15 to get such favourable rates for them. We do not allow
16 them to go in a whole bunch of them in one month.
17 For the past several years we have had not more than
18 one issue a week.

19 COMMISSIONER LEMAN: Does that involve you
20 sometimes in conflict of priorities?

21 MR. CHRISTIE: Oh, we all get together very
22 well.

23 COMMISSIONER MacKEEN: Well, you would wait
24 for the interest in the one issue to digest before the
25 next one came along?

26 MR. CHRISTIE: Yes, we have them scheduled
27 practically up to the end of the year.

28 COMMISSIONER LEMAN: The sort of thing I have
29 been thinking about is that interest rates do change
30 from time to time and sometimes if you induce someone



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1 to do this by persuasion, to wait four or five months
2 in a good many cases you might find that they would be
3 in a less advantageous market than they would have been
4 in the spring or vice versa?

5 MR. CHRISTIE: Well, they can withdraw it
6 if they want to. They are not forced to take that.

7 COMMISSIONER BROWN: If your internal market
8 has been a good one for municipal issues it would seem
9 on the face of it that you have an untapped market outside
10 the province although at a slightly higher rate, would
11 you agree with that?

12 MR. CHRISTIE: I think that is true, yes, the
13 matter of getting known in the other provinces.

14 HON. MR. STANFIELD: I think probably the
15 only municipal issue that has been sold outside the
16 province would be City of Halifax, the City of Dartmouth
17 and the municipality of Halifax and Sydney.

18 COMMISSIONER BROWN: The better known
19 municipalities?

20 MR. CHRISTIE: The Nova Scotia market could
21 not absorb all types of issue all the time.

22 COMMISSIONER BROWN: In your brief in paragraph
23 42 you discuss the pooling of municipal borrowings,
24 presumably on a federal basis. Now, if this is a good
25 way of doing it why has it not been tried provincially?

26 HON. MR. STANFIELD: I think in paragraph 42
27 we were referring to pooling of municipal borrowing
28 within the province. We had in mind, I think, that
29 lumping the municipalities together, some types of
30 common issue, our feeling was that would not be



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1 desirable in that it would penalize the units with
2 the better grade rating and give an advantage to
3 municipalities with poor graded rating.

4 Your further question, Mr. Commissioner, as
5 to why this would not be of benefit to the provinces --
6 do I understand to be asking why it would not be
7 advantageous to the province to be treated by some
8 central authority in the same manner that we treat the
9 municipalities in Nova Scotia?

10 COMMISSIONER BROWN: Well, I was wondering
11 why this was brought up at all.

12 HON. MR. STANFIELD: Well, the suggestion
13 has been made from time to time that there could be
14 municipal pooling. As you know, some provinces look
15 after all the municipal borrowing by guaranteeing some
16 sort of provincial corporation designed to raise money
17 for the municipalities. We have not favoured that
18 approach so far in Nova Scotia for some of the reasons
19 I gave you earlier.

20 COMMISSIONER BROWN: But at the moment you
21 provide provincial government assistance through
22 your Municipal Loan Fund for certain municipalities.
23 Now, in that connection what is the criterion for
24 providing such assistance and what sort of interest
25 rate do you charge?

26 HON. MR. STANFIELD: The criterion would be
27 one of need, broadly speaking, and inability to raise
28 the money themselves for reasons over which we think
29 they have no real control such as a town, for example,
30 which is in a mining area where its financial difficulties

... it would penalize the units with

Why this was brought up at all.



1 are not due to any imprudence on its part or anything
2 of that sort and where it requires facilities which
3 are important such as a school, for example. That
4 would be the general type of criterion.

5 COMMISSIONER BROWN: And what sort of interest
6 rate do you charge?

7 HON. MR. STANFIELD: I think pretty much
8 our own plus a service charge of some sort. We would
9 loan the money to them at what we could borrow it for.

10 COMMISSIONER BROWN: In other words, they
11 borrow at a cheaper rate than municipalities that are
12 on their own?

13 HON. MR. STANFIELD: Well, actually there
14 is not much difference in Nova Scotia between the rates
15 at which the municipalities can borrow and our rate.
16 The average rate on these serial issues by a town or
17 city, from my experience, is not much higher than ours.

18 COMMISSIONER LEMAN: You refer to the fact
19 that there is about \$70 million outstanding now by
20 municipalities. Have you any idea what the average
21 yield is on those?

22 HON. MR. STANFIELD: Well, I can very quickly
23 get you the yields on some recent issues.

24 MR. CHRISTIE: One went as high as 6.11
25 last year. That was extremely high -- about 5 per cent
26 is high.

27 HON. MR. STANFIELD: Take the City of Dartmouth.
28 Do you recall the rate on their most recent issue?

29 MR. CHRISTIE: Yes, 5.26.

30 HON. MR. STANFIELD: That is one to 15 years or



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COMMISSIONER BROWN: And what sort of interest
rate do you charge?

HON. MR. STANFIELD: I think pretty much
our own plus a service charge of some sort. We would
loan the money to them at what we could borrow it for.

COMMISSIONER BROWN: In other words, they
borrow at a cheaper rate than municipalities that are
on their own?

HON. MR. STANFIELD: Yes, that is true.
is not much difference in Nova Scotia between the rates
at which the municipalities can borrow and our rate.
The average rate on these serial issues by a town or
city, from my experience, is not much higher than ours.

COMMISSIONER LEMAN: You refer to the fact
that there is about \$70 million outstanding now by
municipalities. Have you any idea what the average
yield is on those?

HON. MR. STANFIELD: Well, I don't know.
Get you the yields on some recent issues.

MR. CHRISTIE: One went as high as 6.11
last year. That was extremely high -- about 5 per cent
is high.

HON. MR. STANFIELD: Take the City of Dartmouth
for example.

HON. MR. STANFIELD: That is one to 15 years of



1 one to 20?

2 MR. CHRISTIE: Twenty.

3 HON. MR. STANFIELD: The City of Dartmouth
4 paid 5.26 on a one to 20-year issue. When was that?

5 MR. CHRISTIE: About two months ago.

6 HON. MR. STANFIELD: The province of Nova
7 Scotia couldn't do much better than that.

8 COMMISSIONER LEMAN: In the following
9 paragraph, in 32, you say:

10 "The use of the Municipal Fund is
11 not encouraged for school purposes."
12 Was "encourage" a mild term or does it just not have
13 access to it at all?

14 HON. MR. STANFIELD: It is not prohibited
15 but it is not encouraged.

16 COMMISSIONER LEMAN: But you seem to have a
17 different approach for school purposes. A little later
18 you explain that the Minister of Education acts in the
19 case of school purposes, the proportion of annual debt
20 charges and then a little later on you explain that
21 is because there was also power to give direct grants
22 in addition to promising to service a part of the
23 annual cost.

24 HON. MR. STANFIELD: There is a little story
25 I can give you on that, Mr. Commissioner. I will try
26 to be brief about it. We have a provincial arrangement
27 in connection with education under which we share the
28 cost with the municipality. Our provincial proportion
29 varies with the fiscal need of the municipality as
30 measured by its assessment in relation to its school

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1 programme. We share in the same way construction
2 costs of their schools up to certain limits. There will
3 be a limit on what we will recognize as the cost of
4 a classroom or the cost of a gymnasium or something
5 of that sort.

6 But we do not put up the money in the first
7 instance; in other words, if the municipality wants
8 to build a school and it does so within the scale of
9 maximum costs we will recognize and if our share is
10 75 per cent of the cost of their school programme then
11 over the lifetime of the debenture issue we will pay
12 75 per cent of the interest, 75 per cent of the cost
13 of retiring the issues but the province does not put
14 up the money in the first instance.

15 COMMISSIONER LEMAN: Interest and capital?

16 HON. MR. STANFIELD: 10 per cent of the
17 capital. That means in effect that when a municipality
18 builds a school it is increasing the obligation of the
19 province and we would like if we could do it, to
20 meet those as we go. It would be desirable if we could
21 to put up our share of the cost of schools at least
22 as we go along. But under our basis of keeping financial
23 records of the province since this school was not an
24 asset of the province of Nova Scotia when it comes to
25 putting up our share of the money we cannot borrow it
26 privately speaking since it is an asset of the municipality
27 rather than an asset of the province and we have felt
28 that if we are going to put up this money by and large
29 we have to put it up out of our revenue and we have not
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1 The school building programme has been
2 so extensive that we have not been able to provide
3 as a general matter our share of these costs of the
4 school building programme out of revenues. One year
5 we went as high as providing 50 per cent of our share
6 but we have not been able to maintain it. Our present
7 situation is that we are not putting up our share of
8 the cost of the schools at the time but in certain
9 circumstances we make a loan from the Municipal Loan
10 Fund to municipalities but they are relatively rare.
11 As you can well imagine it is a tremendous field and
12 it is not easy to draw the line.

13 COMMISSIONER LEMAN: Is it the general feeling
14 that this approach or self-regulator, what we call the
15 discipline of the market, the approach has to be quite
16 different for school purposes than it is for municipal
17 purposes?

18 HON. MR. STANFIELD: It is not different in
19 fact. It is the discipline of the market there because
20 the municipality, except for these rare exceptions
21 where they can borrow from the Municipal Loan Fund
22 for this purpose, in effect they have to go to the
23 market for the money to build the school. It helps
24 them pay it off.

25 COMMISSIONER GIBSON: Can I return to the
26 question of the effect of changing monetary conditions
27 on municipal capital spending and ask you and Mr. Christie
28 whether when interest rates are low and lots of money
29 available, has this any perceptible effect in persuading
30 the municipalities to spend more, increase their capital



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1 expenditures? Such times have happened but not
2 so frequently.

3 HON. MR. STANFIELD: They have not occurred
4 in my time.

5 COMMISSIONER GIBSON: Let us make it
6 hypothetical. Supposing interest rates went down now
7 quite substantially would there be a scaling up in
8 municipal ~~pcapital~~ programmes?

9 HON. MR. STANFIELD: Mr. Christie, I think,
10 is inclined to make the same answer to this as I
11 gave you when you asked about provincial borrowing
12 and provincial programmes. You may recall I said I
13 thought we went ahead with what we thought we had
14 to do regardless pretty well of interest rates and I
15 think Mr. Christie tends to feel that the municipalities
16 and the province are in substantially the same position.

17 MR. CHRISTIE: Maybe the ratepayers might think
18 differently.

19 COMMISSIONER BROWN: I wonder if we could
20 swing over to the private sector now, Mr. Premier,
21 and I wonder if you could give us your opinion as to
22 what is really needed to attract industrial investments
23 to the province. Is it risk capital or equity or is
24 it the availability of loan capital or both?

25 HON. MR. STANFIELD: Mr. Commissioner, I would
26 just like to emphasize what I tried to say earlier, that
27 I do not think the availability of either risk capital
28 or loan capital would in itself do the trick. In other
29 words, simply making capital available would not in itself,
30 in my opinion, have any great effect on the economy of



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30 in my opinion, have any great effect on the economy of



1 Nova Scotia. There would have to be other measures
2 adopted as well.

3 COMMISSIONER BROWN: How many of these
4 fall into the provincial field and how many into the
5 federal?

6 HON. MR. STANFIELD: Well, we like to think
7 that we are doing about everything that lies within
8 the provincial field, Mr. Commissioner. We are in
9 an area now where opinions will differ, as you will
10 doubtless appreciate.

11 I would say that it would be necessary to
12 provide incentive to bring about any marked increase
13 in secondary industry in the province. Anything on
14 a substantial scale, as you would be well aware, this
15 technique has been used very substantially in connection
16 with Northern Ireland, for example, by the British
17 Government where steps were taken to reduce the settling
18 in costs of industry etc. There is always the question
19 admittedly as to how much can be done by the province
20 and how much by somebody else. In Southern Ireland,
21 for example, I think if no one else will do it the
22 Irish Government does a great deal of this sort of
23 thing itself.

24 I think as far as we are concerned in this
25 part of the country it is a question of what we ourselves
26 can afford to do, what obligations we can afford to take
27 on in connection with incentives of various sorts.
28 We have to date in this province gone so far as to
29 make directly available loan capital. Now, we considered
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1 financed jointly by the government of the province
2 and the investing public which would participate, the
3 corporation would participate in equity as well as
4 loan operations.

5 We made further investigation after that
6 date and at that time decided that it would be more
7 satisfactory and more workable if we would enter into
8 the Industrial Estate field. One way of reducing equity
9 requirements would be to provide the facilities,
10 reduce the equity revenue, for example if someone
11 coming into Nova Scotia would simply enter into a long-
12 term agreement with some agency here under which the
13 factory and certain other facilities would become
14 available. So instead of proceeding with the more general
15 conception of a government supervisory finance corporation
16 participating in equity industrial capital we established
17 an Industrial Estates Board which is directed by
18 representative business people and others in the province
19 under an agreement between the corporation and the
20 government of the province and it is authorized to
21 either build and sell factories or build and lease them.
22 This step was taken in part because of the relative
23 lack of people in this part of the country interested
24 in financing these operations privately.

25 Secondly, it was felt that the ability to
26 provide a factory would be a selling point to an
27 agency assigned the task of providing secondary industry
28 in the province; thirdly, because it was felt that
29 the provision of the factory and in certain instances
30 the machinery was at least a partial step to solve

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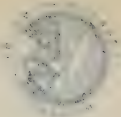
2 Generally speaking if a firm has a factory
3 and the machinery the next requirement would be working
4 capital and, of course, the banks are always happy
5 to provide that.

6 COMMISSIONER BROWN: Has this been directed
7 towards assisting particular distressed areas of the
8 province?

9 HON. MR. STANFIELD: I think Mr. Manuge,
10 the general manager of Industrial Estates is here.
11 Perhaps if he would come up.

12 The general aim has been to give a preference
13 to distressed areas. The Industrial Estates Board
14 has authority under legislation to give more favourable
15 treatment to an industry going into a distressed area,
16 so-called, than otherwise. I think I am correct in
17 saying that the corporation has got the approval of
18 the government. The government is authorized under
19 the legislation to authorize such special arrangements.
20 I think Mr. Manuge will agree that generally speaking
21 industry in the province likes a fairly central
22 position in relation to Halifax and the central part
23 of the province and that generally speaking special
24 inducements are necessary to persuade an industry to
25 go into some other section of the province. While he
26 is here he might answer any questions I am sure.

27 COMMISSIONER BROWN: You can possibly see
28 what I am getting at. You are suggesting that nationally
29 there should be assistance in this direction. What
30 I am trying to get at is whether within your powers you



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1 have done the same on a provincial basis and the
2 follow up question is how successful has this been?

3 HON. MR. STANFIELD: Well, we recognize
4 that we have in our own small way in the province the
5 same problem as the nation has, that industry prefers
6 certain sections for one reason or another of a
7 province. We recognize that special inducements are
8 necessary to persuade industry to go into other sections
9 of the province. My own impression is that our success
10 has been quite limited. Mr. Manuge, if you will
11 permit him, might elaborate a little on his experience
12 with the attitude of industry with respect to trying
13 to persuade it to locate in some sections of the
14 province other than, say, this area.

15 MR. MANUGE: Mr. Commissioner, Mr. Premier,
16 certainly it is a fact when we are talking to an
17 industrialist, let us say, in Toronto or Montreal
18 or wherever the head office of the corporation happens
19 to be who are interested in establishing a plant in this
20 province, I would just mention on what basis this
21 interest might be developed.

22 First of all, we find that industrialists are
23 interested in Nova Scotia as a location for a plant
24 if the plant can serve a regional market now embracing
25 some two million persons. Secondly, if it should be
26 a one plant operation to serve Canada, the goods are
27 of a quality, high priced nature which would have a
28 low freight charge in relation to the value, then
29 industrialists think in terms of national distribution.
30 Thirdly, these two factors being the basis also they are



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1 interested in export trade and Nova Scotia seems to
2 be more prominently in their minds these days.

3 When we get to the point that this definite
4 interest has been expressed, as Mr. Premier has pointed
5 out, because of the fact that the Halifax-Darmouth
6 and county area represents a metropolitan area
7 embracing some 225,000 persons, usually the industrialists
8 want to locate the plant here. This is the place they
9 would like to be because not only do we have this large
10 metropolitan area and the concentration of buying
11 power also but the international airport and the
12 harbour where credit and universities and such like
13 are important factors but when we talk to them about
14 taking their plant into the lagging economy areas such
15 as Springhill where the great mining disaster occurred
16 or to Pictou County where there have been setbacks in
17 the coal industry or in Cape Breton, then we face
18 many, many questions because obviously if they are
19 catering to the regional market only then the great
20 concentration of population is in this area and if they
21 can ship directly from here to, let us say, Newfoundland
22 by freight or it might be a question of transportation
23 from the Pictou County area to Halifax they say: "Why
24 should we bring the goods in and why can't we produce
25 them there and move the goods out to the more thinly
26 populated areas?"

27 In the final analysis in order to have plants
28 move into the more lagging areas the question of the
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1 becomes very important and without this incentive
2 I doubt if we could get certain plants to go into, let
3 us say, the Pictou County estate which we have at
4 Stellarton or Springhill.

5 If I may say so, Mr. Premier, we have not
6 been too successful yet in encouraging plants to go
7 into the Cape Breton area but I have dealt with the
8 incentive because it is a continuing policy which is
9 pretty well directed by the government and our Board
10 of Directors. I wonder if I have supplied the information,
11 Mr. Premier.

12 HON. MR. STANFIELD: Yes.

13 COMMISSIONER BROWN: Have you been successful
14 in any instance, have those industries been successful?

15 MR. MANUGE: We have had no failure as far
16 as any specific industry going into the coal areas is
17 concerned. There have been adjustment problems because
18 of the owners of industry being of a particular foreign
19 ethnic group, adjustments which would come normally
20 in the course of a new plant being established whether
21 it might be a plant from the United States or Italy
22 for that matter. We have just encouraged a plant to
23 go into the Pictou County estate and in that connection
24 I feel that this plant, which will manufacture envelopes,
25 will be successful. In co-operation with the government,
26 the Department of Trade and Industry, we have conducted
27 market surveys and there is every likelihood that this
28 will be a successful operation. The other plant on
29 this Estate is from Italy and, as I have said, problems
30 have come up in the natural process of adjustments and



1 are now in evidence but I think both these plants
2 will be successful.

3 HON. MR. STANFIELD: We have not had enough
4 experience, Mr. Manuge, to really answer the second
5 part. I think it would be fair to say while we do
6 not believe these plants would have any great difficulty
7 they cannot overcome we have not had enough experience
8 really to be able to say whether plants we have induced
9 to go into these areas will have continuing difficulties.
10 Honestly, I do not think we can answer that question.
11 It will be some years yet. As Mr. Manuge has emphasized
12 we have had limited success in inducing industry to
13 go into these areas. The Corporation has worked hard
14 at it but the preference still is to go into these
15 other areas of the province.

16 COMMISSIONER LEMAN: In this field what sort
17 of role would you say the federal government should
18 play?

19 HON. MR. STANFIELD: Within the province?
20 The federal government has entered the field to this
21 extent now, that it does provide some income tax
22 consideration in the form of accelerated depreciation
23 for certain areas. We would like to see that extended.
24 I think I would like to put it this way, that generally
25 speaking I would not be prepared to say that location
26 within the province was a federal responsibility with,
27 I would say, one considerable exception and that is
28 that our coal mining areas here are such a tremendous
29 problem that we look for federal assistance in connection
30 with them but I would not be prepared to state the

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1 general proposition, equalization of trade within
2 the province is a federal responsibility, with that
3 great exception of the coal mining areas that I have
4 mentioned.

5 COMMISSIONER LEMAN: Well, even in relation
6 to the coal mining areas, what sort of action would you
7 see -- the encouragement by the federal government to
8 create new industries to displace those that are
9 depressed or some form of subsidization to existing
10 ones?

11 HON. MR. STANFIELD: They are already in the
12 way of subsidization of existing ones in a very large
13 way, of course, and we certainly want any help we can
14 get from the government of Canada with regard to
15 the location of alternative industries in these areas.
16 Our experience with coal mining areas over the years
17 is that they remain continuing problems. Some people
18 leave a town when the coal mining closes down but a
19 lot of people do not and the problem does not in fact
20 solve itself by people moving away from that town. It
21 remains a chronic problem for a long time.

22 COMMISSIONER BROWN: Would encouraging
23 facilities for the mobility of labour be more effective
24 than encouraging industry to move?

25 HON. MR. STANFIELD: There is quite a high
26 degree of mobility in any of these communities I speak
27 of. They are prepared to commute some distance. They
28 are used to having some distance between their homes
29 and their jobs, for instance. It is desirable, if not
30 essential, to have the industry in that town. They are



General proposition, equalization of trade within the province is a federal responsibility, with that great exception of the coal mining areas that I have mentioned.

COMMISSIONER LEWIS: Well, even in relation to the coal mining areas, what sort of action would you see -- the encouragement by the federal government to create new industries to displace those that are depressed or some form of subsidization to existing ones?

HON. MR. STANFIELD: They are already in the way of subsidization of existing ones in a very large way, of course, and we certainly want any help we can get from the government of Canada with regard to the location of alternative industries in these areas. Our experience with coal mining areas over the years is that they remain continuing problems. Some people leave a town when the coal mining closes down but a lot of people do not and the problem does not in fact solve itself by people moving away from that town. It remains a chronic problem for a long time.

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1 prepared to go back and forth some distance daily
2 for employment. I think it is fair to say it is
3 either necessary to develop some industry in those
4 areas where you have chronic unemployment and all that
5 goes with it for a long time.

6 COMMISSIONER BROWN: You cannot move people
7 completely out to another area?

8 HON. MR. STANFIELD: They do not want to
9 move. That is their home and experience has been that
10 they do not. Some do, of course, but experience has
11 been that those communities remain communities at
12 least for many years. That is where they have their
13 homes and their friends and apparently they are not
14 prepared to move away. That has certainly been the
15 experience.

16 COMMISSIONER BROWN: Has public subsidization
17 of such moves been tried or discussed?

18 HON. MR. STANFIELD: It was suggested, I think,
19 by Mr. Walter Gordon but nobody has taken it up. I
20 say that without further comment in this forum.

21 COMMISSIONER BROWN: And at this date.

22 COMMISSIONER MACKINTOSH: Have you had full
23 co-operation from the Industrial Development Bank in
24 dealing with these problems or are there ways in which
25 you think it could be more useful?

26 HON. MR. STANFIELD: My impression is that
27 the Industrial Development Bank has become very active
28 in this region within the last five years, or three
29 or four years, yes, and they have unquestionably taken
30 over a good deal of the work that our own Industrial



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1 Loan Board used to do.

2 I think they are being quite helpful. I think
3 the principal concern in this field would be with
4 whatever limitations there might be on the size of any
5 loan they may feel they were able to make in a particular
6 instance. I think they are active to some extent,
7 however.

8 COMMISSIONER MACKINTOSH: In other places
9 we got opposing views, some who said they ought to lend
10 much larger amounts at more favourable terms, they
11 ought to take equity positions. Others said they are
12 now more aggressive, they are competing with legitimate
13 private enterprise and customers are paying off loans
14 to companies to take a loan from the Industrial
15 Development Bank.

16 HON. MR. STANFIELD: I think if they are
17 active they probably are competing with private enter-
18 prise to some extent but we would not be prepared to
19 criticize them on that ground ourselves.

20 COMMISSIONER BROWN: The fact that the
21 advances by your Industrial Loan Board have fallen off
22 would indicate a lessening in demand for capital by
23 small businesses.

24 HON. MR. STANFIELD: Oh no, the Industrial
25 Development Bank has taken that up. In fact, the
26 activities of our Loan Board have fallen off due to
27 the increased activity of the Industrial Development
28 Bank.

29 COMMISSIONER BROWN: I am sorry, the use of
30 the word "lessening" was unfortunate. Let us put it



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the word "lessening" was unfortunate. Let us put it



1 this way: There is not an unsatisfied demand for
2 such loans because presumably if there were you would
3 be filling it to the same degree that you were before?

4 HON. MR. STANFIELD: Yes, I think that is
5 right. I did not mean to suggest that there are not
6 people or groups in Nova Scotia who feel they are
7 denied credit, that they should have other than the
8 banks or some government institution but I do say
9 that the Industrial Development Bank and the Industrial
10 Loan Board are active in the field of long-term loans
11 and that the Industrial Estates people are anxious
12 to be of assistance to any enterprise that they think
13 may go. I think we will all agree it does not do
14 anybody any good to help something that does not look
15 to have a very good chance of success.

16 THE CHAIRMAN: You mentioned in your brief,
17 Mr. Premier, the Securities Commission. On a number
18 of occasions we have had the suggestion made that it
19 would be desirable to have something similar to the
20 S.E.C. for the whole of Canada rather than confine the
21 security regulations to provincial organizations such
22 securities commissions. Have you ever given that
23 problem any consideration at all here?

24 HON. MR. STANFIELD: I do not think we have
25 any particular views, Mr. Chief Justice, there. We
26 have not had any such difficulty in this field that
27 has led us to feel that there should be any federal
28 agency. We hit the odd case. As a matter of fact
29 I think there is more a sense of grievance in the
30 province perhaps in connection with charges for second



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province perhaps in connection with charges for second



1 mortgages and that sort of thing which we sometimes
2 run into.

3 THE CHAIRMAN: That would not come under your
4 Securities Commission.

5 HON. MR. STANFIELD: Oh no.

6 THE CHAIRMAN: Well, do you find that the
7 variety of regulations in the various provinces have
8 any adverse effect on operations here at all?

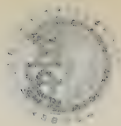
9 HON. MR. STANFIELD: We are not aware of that.

10 COMMISSIONER GIBSON: I have one more question,
11 Mr. Chairman. In talking about the development of
12 industry etc., I got the impression that everything
13 that is done is through the provision of loans to
14 businesses of one kind or another or facilities of
15 capital estates. Is this the problem; in other words
16 is there a problem of risk capital here apart from
17 being able to borrow the money?

18 HON. MR. STANFIELD: I think Mr. Brown asked
19 the same question. I certainly would not suggest that
20 there is no call for risk capital. I do not know
21 off-hand how substantial a difficulty that creates.
22 I do say that we have attempted within the province
23 to reduce that difficulty by using the Industrial Estate
24 technique. I think where it goes far enough it does
25 tend to reduce the problem of equity.

26 COMMISSIONER GIBSON: I am not suggesting
27 you should do it because it is obviously a very difficult
28 problem. I am just wondering what your general thinking
29 is.

30 HON. MR. STANFIELD: Well, we feel -- I think



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3 and if the banks are prepared in proper circumstances
4 to provide the working capital, a good deal of it,
5 that the equity requirements become relatively modest.

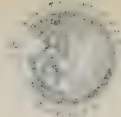
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7 private participation. If somebody comes to us for
8 a loan, of course, under the Industrial Loan Board
9 there was a matching of private participation. Under
10 the Industrial Estates although there is no hard and
11 fast law it is assumed that there has to be some
12 private participation.

13 COMMISSIONER MacKEEN: Is there perhaps
14 a gap though between where Industrial Estates will grow
15 plus the banks where the man has an idea and is not
16 getting money to carry it through?

17 HON. MR. STANFIELD: There may very well be.
18 I'll won't suggest for a moment that we think we have solved
19 the financing aspect of industry in the province and
20 there may very well be instances.

21 COMMISSIONER HARROLD: Mr. Premier, in
22 connection with the agricultural section in this brief
23 you have two suggestions. One is an increase as far
24 as the Farm Improvement Loan Act is concerned from
25 \$7,500 to \$10,000. The other is the pooling of two
26 agencies; your Land Settlement Board and the Farm
27 Credit Corporation. Have you any more detailed suggestions
28 as to how these two could be pooled?

29 HON. MR. STANFIELD: I do not think we have.
30 We had a Royal Commission to which reference is made



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HON. MR. STANFIELD: I do not think we have.

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1 in the submission and the Commission urged that the
2 two should get together. I understand there have been
3 discussions with the federal people about this but it
4 has not been possible to make any progress.

5 COMMISSIONER HARROLD: It is mentioned here
6 in terms of a single agency. Would this take in the
7 banks too as far as loaning the farmers are concerned?

8 HON. MR. STANFIELD: A single line of credit?

9 COMMISSIONER HARROLD: Yes.

10 HON. MR. STANFIELD: I presume it would have
11 to if that were worked out. We recognize that that
12 is a very difficult thing to do but we have in mind
13 that at present it is fairly complex. The farmer
14 has to find out whether he is going to go to the Nova
15 Scotia Land Settlement Board or he is going to go to
16 the federal agency or going to go to the bank. If
17 in any sense it is possible this could be simplified
18 in some manner it would be advantageous. We do not
19 pretend it is an easy thing to do.

20 COMMISSIONER HARROLD: You would not go any
21 farther than this, the general suggestion that this
22 might be preferable?

23 HON. MR. STANFIELD: It would be desirable
24 if it could be worked out. Now, the Royal Commission
25 on Rural Credit in 1957 decided that we should open
26 negotiations with the Government of Canada for the
27 establishment of a board to serve as the sole government
28 agency for supplying long-term credit to farmers in
29 Nova Scotia. The majority of the members of the board
30 be appointed by the Provincial Government, that funds



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1 be supplied by the Board by both the Federal and
2 Provincial governments and that responsibility for
3 losses be pro-rated between the two governments.

4 That is a fairly specific conception. It
5 goes into a lot of detail but that is the substance
6 of it. I understand there have been discussions between
7 representatives of our Department of Agriculture and
8 the Ottawa people in that regard but it has not been
9 possible yet to make very much progress. That is the
10 general conception.

11 THE CHAIRMAN: Thank you very much, Mr.
12 Premier. The discussion has been very interesting and
13 useful to us.

14 HON. MR. STANFIELD: Thank you, Mr. Chief
15 Justice, and may I just in closing emphasize again
16 that while our recommendations with regard to credit
17 facilities are perhaps rather limited and while we
18 have emphasized that the credit arrangements in them-
19 selves will not produce any sort of a capital growth
20 in the province, I would not want anyone to feel that
21 we do not think that additional policies are necessary.

22 The Government of ^{the} province holds very strongly
23 to the view that additional policies are necessary but
24 we feel that credit is only part of the problem and credit
25 in itself will not perhaps take this too far.

26 THE CHAIRMAN: We shall adjourn until 2.00
27 o'clock when we shall hear the brief of the Nova Scotia
28 Credit Union League.

29 --- Luncheon adjournment.
30



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THE CHAIRMAN: The Nova Scotia Credit
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SUBMISSION OF THE NOVA SCOTIA CREDIT
UNION LEAGUE

APPEARANCES

Mr. Rod MacMullin - Managing Director
Mr. P.J. Mackenzie - Assistant Managing
Director

--- Mr. MacMullin reads summary of brief.

THE CHAIRMAN: Thank you very much, Mr.
MacMullin.

Questions?

COMMISSIONER HARROLD: Mr. Chairman, maybe
I could start off this time. Mr. MacMullin, you suggest
that your credit unions in Nova Scotia are very similar
to what they are and operate very similar to those
in other provinces. There are some very minor differences.
You have got an Act here in Nova Scotia which is very
similar to the Act in other provinces and you make
some comment on the common bond. I believe it is on
page 13 you refer to the fact that you have different
types of common bond. Do you have any views as to the
respective merits of an occupational versus a community
type common bond as to the success of the credit union
or whether they are operating in the same way or
successfully etc.?



THE CHAIRMAN: The Nova Scotia Credit

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relative merits of an occupational versus a community

type common bond as to the success of the credit union

or whether they are operating in the same way or



1 MR. MacMULLIN: It is difficult, Mr.
2 Commissioner, to be specific. Certainly in general
3 I would say that as a preference we would prefer the
4 community type credit union. Sometimes it is easier
5 to organize an industrial credit union, let us say,
6 because of the fact that it is easy to get them together.
7 Very often they have facilities, personnel and things
8 of this nature that makes it a bit easier to get
9 started but in the long run it would be our opinion
10 that the community type credit union is preferable,
11 it has more stability and we think that it can do a
12 better job especially in the sociological field of
13 educating members and making them more responsible
14 citizens than they would ordinarily be.

15 COMMISSIONER HARROLD: Going farther as
16 far as the structure of the movement is concerned, you
17 make some reference to the supervisory committee in
18 your credit unions at page 30, I think paragraph 101,
19 where you mention the fact that you also feel that
20 the supervisory committee in its present form is not
21 satisfactory. There are other committees more active
22 that are doing their part. Is there not something
23 you can suggest to the credit unions to change this
24 if it is not working satisfactorily at the present time
25 or what is the reason that you make this statement?

26 MR. MacMULLIN: Well, this is something that
27 we have wrestled with quite a bit in Nova Scotia.
28 I don't know whether it is the same with the other
29 provinces or not. We are not having any particular
30 problem with our Boards of Directors or our Credit



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1 Committees, as far as getting these groups to perform
2 their functions but we do admit in our brief that we
3 have some problem in getting the supervisory committee
4 to act as efficiently as it could, especially to act
5 as its duties are laid down in the Credit Union Act.

6 There are several reasons for this. One
7 reason is that for the most part the average Credit
8 Union in Nova Scotia is made up of pretty ordinary
9 people, very often with limited education and certainly
10 limited experience as far as bookkeeping and business
11 management is concerned with the result that quite
12 frequently and especially in the small rural communities
13 it is difficult to find people that have the actual
14 qualifications to do the jobs that are specified for
15 them to do under our Credit Union Act and in the
16 Credit Union Act, as you might have noticed, they are
17 directed to more or less audit all the books of the
18 Credit Union at least quarterly. So that taking this
19 literally it is almost impossible for them to do it.
20 In some of the larger credit unions where you would
21 have very competent people who are qualified to do this
22 it is difficult to expect these men to do the job that
23 is specified for them in the Act because of the time
24 that it would demand -- a great deal of time.

25 From our own experience in certain credit
26 unions that have in excess of \$200,000 and that do
27 retain an independent auditor very often it will take
28 two or three weeks working 18 hours a day to do an
29 audit. For people to do this in evenings would run into
30 a considerable effort. So that these are some of the

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1 problems.

2 We would suggest one of several things --
3 either that the duties of the supervisory committee
4 be lessened and that certain important functions that
5 they could perform be spelled out such as verifying
6 pass books, examining loan applications, loan note
7 payments and things of this nature which could be done
8 by the average layman without a great deal of briefing
9 and another observation would be to make the supervisory
10 committee a committee that would be appointed by the
11 Boards of the credit unions rather than appointed by
12 the membership because very often the supervisory
13 committee can be sort of a popular choice when appointed
14 or elected by the annual meeting and may not necessarily
15 contain on the committee the best people that should
16 be available in the membership of the credit union
17 so that if this were the responsibility of the board
18 there would be less excuse for having people on the
19 supervisory committee that would be less qualified.

20 COMMISSIONER HARROLD: Going on from that
21 question to the question of supervision by the
22 government you mention the fact that you feel that the
23 smaller credit unions will probably benefit by more
24 frequent government inspection. Have you taken that
25 up with the provincial government and is there any
26 reason why the Credit Union League as such might pay
27 for part of the cost for that or is that part of the
28 reason why you have not got more government inspection?

29 MR. MacMULLIN: That is a good question. We
30 have discussed it with the inspectors of credit unions



We would suggest one of several things --

either that the duties of the supervisory committee be lessened and that certain important functions that they could perform be spelled out such as verifying

pass books, examining loan applications, loan note payments and things of this nature which could be done by the average layman without a great deal of training

and another observation would be to make the supervisory

committee a committee that would be appointed by the

Boards of the credit unions rather than appointed by

the membership because very often the supervisory

committee can be sort of a popular choice when appointed

or elected by the annual meeting and may not necessarily

contain on the committee the best people that should

be available in the membership of the credit union

so that if this were the responsibility of the board

there would be less excuse for having people on the

supervisory committee that would be less qualified.

COMMISSIONER HAROLD: Going on from that

question to the question of supervision by the

Government you mention the fact that you feel that the

smaller credit unions will probably benefit by more

frequent Government inspection. Have you taken that

up with the provincial Government and is there any

reason why the Credit Union League as such might pay

for part of the cost for that or is that part of the

reason why you have not got more Government inspections?

MR. MACMILLAN: That is a good question. We

have discussed it with the inspectors of credit unions



1 and I have discussed it with the registrar on numerous
2 occasions. We realize we are getting what we think
3 is a reasonably good inspection service right now without
4 any cost. We would like to see more inspection, we
5 feel, than would be done by government. We would be
6 prepared as a League to assist on this -- preferably
7 not financially -- because we just do not have the
8 money to do this, spend it on inspection duties. We
9 would prefer to spend all the funds we have on education
10 but if at times we can work with the inspector of
11 credit unions we would certainly be happy to do this.

12 There have been suggestions made at different
13 times that the government might ask the credit unions
14 of the province to share part of the cost of inspection.
15 No formal request has been made but we would hope that
16 we would be able to convince the government authorities
17 that this would not be necessary and not in the best
18 interests.

19 COMMISSIONER HARROLD: You do not have the
20 feeling that the League ~~as such~~ should have more
21 authority possibly in their inspection or do you feel
22 it should be done merely by suggestion?

23 MR. MacMULLIN: We do believe that the League
24 should have more authority. All our credit unions
25 at the moment are completely autonomous. Whether they
26 take guidance from us is purely a matter for them to
27 decide themselves. Sometimes they should take guidance
28 and maybe they do not so that it would be an advantage
29 if the League did have a greater degree of authority
30 than it has now as far as inspections are concerned.



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than it has now as far as inspections are concerned.



1 If this were the case then I think we would be in a
2 position where we could assist the government inspectors
3 to a greater extent than we are at present.

4 COMMISSIONER HARROLD: You mentioned, I
5 believe on page 20, that you have had a considerable
6 number of charters cancelled. Have you a record of losses
7 suffered by some of these local people of these credit
8 unions or have there been any?

9 MR. MacMULLIN: We do have a record and the
10 record shows there are no losses.

11 COMMISSIONER HARROLD: There are no losses?

12 MR. MacMULLIN: That is right and as you
13 will notice from our brief we have liquidated a large
14 number of credit unions since the first one was organized
15 in Nova Scotia and as we indicate no depositor has lost
16 a nickel.

17 COMMISSIONER HARROLD: This has been brought
18 about mainly by changes in the particular community
19 or industry?

20 MR. MacMULLIN: Yes, the vast majority have
21 been in very small rural communities. At one time
22 when the credit union was organized these were in
23 relatively important communities but in more recent
24 years they have become practically ghost communities.
25 These credit unions, I think, have been closed or
26 were merged with neighbouring communities.

27 COMMISSIONER HARROLD: What about the future?
28 Can you see the same thing continuing to happen?

29 MR. MacMULLIN: We can see this continuing
30 to some extent in quite a number of our areas.



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1 COMMISSIONER HARROLD: This brings on another
2 question ---.

3 MR. MacMULLIN: This does not apply just to
4 credit unions; this applies to many of the other
5 institutions that these same communities have.

6 COMMISSIONER HARROLD: I notice in the structure
7 of your Credit Union League that this seems to be open
8 to members of the credit unions as well as co-ops.
9 Do you feel this is a satisfactory way of working or
10 do you have any confusion having co-ops as members
11 of these credit unions?

12 MR. MacMULLIN: In Nova Scotia we have
13 preferred it this way. If we were a bigger province,
14 if we had more organization we would do it possibly
15 differently. We would have organized it like the ones
16 in Saskatchewan, or Ontario or British Columbia and
17 other places. One of the reasons it is like this in
18 Nova Scotia is that the alternative would be to set up
19 a separate organization that would deal exclusively
20 in the financial end of the business and this being
21 the case it would be entirely too involved for us so
22 that it has been our experience and our opinion from
23 the beginning that this whole job should be done by
24 one organization with one board of directors and be
25 done just as efficiently as if we had two organizations
26 with certain elements of duplication of expenses.

27 As far as co-operative organizations are
28 concerned, for many, many years the co-operatives
29 had the privilege under our legislation of being able
30 to obtain the various financial services of the League



QUESTIONS AND ANSWERS

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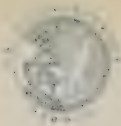
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1 without membership; but then some few years ago when
2 the Canadian Co-operative Credit Society was organized
3 it was our intention at that time to become a member
4 of it and one of the requirements of this organization
5 in order to qualify as a credit society affiliated
6 with the Canadian Co-operative Credit Society would
7 have been to permit the co-operatives to become members
8 so the Act was changed in recent years to admit
9 co-operatives as full members but their membership
10 in the League has not caused any confusion or difficulty
11 to us. We have a gentlemen's agreement when they came
12 in that it was understood they were interested purely
13 in the particular service of the deposit and loan
14 departments and as far as the other aspects of the
15 League were concerned they were not particularly
16 interested and therefore they ought to refrain from
17 using their influence, as small as it might have been,
18 to affect any of the other aspects of the League itself.

19 COMMISSIONER HARROLD: I notice on page 9
20 you say something about you have not enough funds
21 for all your needs; yet on another page of your brief
22 you suggest that some of the funds of the credit union
23 itself go to the Credit Union League as a result
24 of -- you use the word "unused funds" are used in
25 the Credit Union League as such but there is an
26 apparent contradiction and that is the credit unions
27 you are describing on page 9 are some of the biggest
28 and most successful.

29 MR. MacMULLIN: Our arrangement in Nova
30 Scotia is probably a bit different than it is in



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MR. MacMULLIN: Our arrangement in Nova



1 many of the other provinces of Canada. You will noticed
2 in going over our submission that the big portion of
3 our money in the League is out on loan by way of
4 first mortgage. This was intentional. From the
5 very time when our Deposit and Loan Department was
6 organized as a department of the League back in 1940
7 there was a tendency at that time because of the
8 terrific demand for credit unions to get into the
9 mortgage loan field and the Board of the League at
10 the time decided that this would be an undesirable move
11 for many reasons. Many of our credit unions were small
12 rural communities, they did not have the technical
13 assistance available to make sure mortgages were
14 properly drawn up, they did not have safekeeping
15 facilities to keep these mortgages as security etc.,
16 so the idea of the credit unions going into mortgages
17 was discouraged and instead the Board of the League
18 advocated and encouraged the credit unions to invest
19 funds that they would have if they had taken care of
20 the short-term loan demand of the member with the
21 League and the League in turn would then take care of
22 the mortgage loans to the individual members to the
23 best of their ability; in other words, we would
24 take the funds from credit unions that were surplus
25 and we would ration these funds in the way of mortgages
26 of the credit union members throughout the province
27 in proportion to the deposit the credit union placed
28 with us. That is the way this has developed through
29 the piece, and generally our credit unions are not
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the office, and generally our credit unions are not



1 in the mortgage field themselves, but the mortgage
2 business is done predominantly by the League itself.

3 COMMISSIONER HARROLD: That is the distinction
4 you make when you say they have not been able as yet
5 to provide for all the credit unions?

6 MR. MacMULLIN: That is right.

7 COMMISSIONER GIBSON: Some of the larger
8 credit unions do give mortgage loans?

9 MR. MacMULLIN: Yes.

10 COMMISSIONER GIBSON: Is this a tendency
11 when a credit union is sizeable -- is there a tendency
12 to go for mortgage business to a degree?

13 MR. MacMULLIN: The tendency is always
14 there, but the pressure is always there, and this
15 is especially true in our part of the country -- in
16 Nova Scotia -- because of the tremendous inadequacy
17 of getting mortgages from the regular established
18 institutions at the present time. So that, every
19 credit union, whether big or small, has this continuous
20 pressure on it for assistance to people who need
21 mortgage money which they cannot get. In the case of
22 the smaller credit unions, of course, it is a bit
23 easier for them to say, "No, our unit is small. We
24 have so many demands for small loans", and so on.
25 However, as a credit union gets bigger this pressure
26 increases and there is probably less of a reason
27 the credit union can give the members as to why they
28 should not do this. So, it is more difficult for the
29 larger credit unions not to get into the mortgage
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1 COMMISSIONER GIBSON: What sort of terms
2 do the mortgages run?

3 MR. MacMULLIN: Well, this is varied. Let
4 us say ten years ago our terms would be more generous
5 from a League point of view than they would be from
6 the average credit union. Ten years ago our average
7 mortgage loan would probably be for \$1,000 for a
8 term of 8 years. Today the average would be up
9 considerably -- probably \$5,000, and term would probably
10 be more in line with 12 to 15 years. But, as far
11 as many of the applicants who come to us today are
12 concerned, they want as much as they can get and for
13 as long as they can get it, and this is because of
14 the increased cost of building homes.

15 COMMISSIONER GIBSON: Do you do any
16 financing of this do-it-yourself house building? I
17 gather there is a co-operative movement here doing it?

18 MR. MacMULLIN: Quite a number of the
19 mortgage loans we make are made to credit union members
20 who for one reason or another would not be able to
21 qualify for mortgages elsewhere, with the result that
22 many of these are made to people that spend a lot of
23 their own time.

24 COMMISSIONER GIBSON: And friends' time.

25 MR. MacMULLIN: Yes. In effect, what
26 you are probably thinking of, Mr. Commissioner, is
27 the co-operative housing arrangements that we have
28 in Nova Scotia. We assist in some of these by way of
29 mostly the downpayment and temporary financing until
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1 but in these groups -- and probably the extension
2 department brief might elaborate more on this --
3 in those groups they actually substitute their own
4 labour and the labour of their friends for what
5 ordinarily would probably be the down-payment in many
6 other cases.

7 COMMISSIONER GIBSON: Do you see this
8 tendency toward mortgage lending gradually increasing
9 over the years?

10 MR. MacMULLIN: Certainly, the pressure
11 is increasing and I would imagine it would increase ,
12 yes. As a matter of fact, one of the projects that our
13 League is seriously thinking about right now, and
14 which we will be discussing in the next couple of days
15 in Halifax during our convention, is the desirability
16 of organizing a co-operative savings and loan
17 association that will deal exclusively in mortgage
18 loans.

19 COMMISSIONER GIBSON: Would this be part
20 of the League organization?

21 MR. MacMULLIN: We would hope it would be
22 a subsidiary of the League, if possible.

23 COMMISSIONER GIBSON: But, in effect, you
24 have done this yourselves so as to lessen the demand
25 on the members?

26 MR. MacMULLIN: That is right.

27 COMMISSIONER GIBSON: But now I gather
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29 some of the larger members are doing/and this would
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1 MR. MacMULLIN: I don't think there would
2 be any serious danger from the mortgage business we
3 are doing, but we do recognize that mortgage loans
4 are for larger amounts and for longer term, and they
5 tie up a lot of money and there is naturally a very
6 striking consciousness on our part of the possible
7 danger of going too far on mortgages and not protecting
8 our liquidity properly. So that, day in and day out
9 we have to turn down many applications for mortgage
10 loans. We are hoping if this could be done on the
11 basis of a savings loan association on a co-operative
12 basis that we could, by the sale of debentures to
13 the public, obtain new money for investment purposes
14 that would be channelled directly into mortgages,
15 and this would protect the liquidity of our credit
16 unions while at the same time filling this terrible
17 need that we have at the moment for mortgage money.

18 COMMISSIONER GIBSON: Your unions depend
19 on you to quite a degree for liquidity, don't they?

20 MR. MacMULLIN: That is right.

21 COMMISSIONER GIBSON: And this limits what
22 you can do in the mortgage area?

23 MR. MacMULLIN: That is right.

24 COMMISSIONER GIBSON: What sort of material
25 would your security be -- you have got about 30 per
26 cent cash in securities.

27 MR. MacMULLIN: Yes, our securities run
28 from maturities within the year up to 20 years. I
29 haven't got with me the exact breakdown of our
30 schedule of this, but we do have something like 50

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1 per cent of our total securities coming due within
2 10 years. So that, we have each year a substantial
3 amount coming due in short-term securities, and in
4 the longer terms up to 20 years a very small percentage
5 of the total investment portfolio that we have.

6 COMMISSIONER GIBSON: These are in the
7 main marketable securities?

8 MR. MacMULLIN: That is right.

9 COMMISSIONER GIBSON: All of them?

10 MR. MacMULLIN: That is right.

11 COMMISSIONER GIBSON: Do you do much trade
12 in securities?

13 MR. MacMULLIN: We have done very little
14 in the last couple of years. As a matter of fact,
15 I can only think of two trades we have had in the
16 last nine to 12 months.

17 COMMISSIONER GIBSON: So you mainly buy
18 them to keep them?

19 MR. MacMULLIN: Yes, that is right. There
20 are exceptions: Recently we did make a switch.
21 There were some good bonds came out with a good coupon,
22 and we were able to make arrangements with a broker
23 to take some of our other short-term bonds off our
24 hands and we were able to do this, but we are very
25 conscious when shifting of the possibility of taking
26 any loss in the principal of the bonds. We would
27 prefer to take the loss on income rather than lose
28 the principal.

29 COMMISSIONER MacKEEN: These are all first
30 mortgages?



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COMMISSIONER MacKEN: These are all first



1 MR. MacMULLIN: Yes.

2 COMMISSIONER MacKEEN: What average rate do
3 you get on them?

4 MR. MacMULLIN: We have been charging 7
5 per cent for our mortgage loans which included
6 the cost of loan protection insurance. Outside of
7 that, it would be a rate -- it would be the equivalent
8 of the rate on the market of 6-1/4 per cent.

9 COMMISSIONER MacKEEN: What percentage of
10 the appraised value of the property?

11 MR. MacMULLIN: Our policy is 80 per cent.

12 COMMISSIONER HARROLD: Are they repayable
13 monthly, generally?

14 MR. MacMULLIN: With very few exceptions,
15 they are repayable monthly.

16 COMMISSIONER GIBSON: Why do you not want
17 to take a loss on your securities? Why would you
18 prefer to take a loss on income? Many businesses
19 think this way, and I just wondered why.

20 MR. MacMULLIN: I don't know whether there
21 is any real good reason for it or not. Maybe it is
22 the conservative nature of those of us in the Maritimes
23 of being a little cautious.

24 COMMISSIONER GIBSON: But if you could improve
25 your yield it should not be particularly relevant,
26 should it -- over the same period of time?

27 MR. MacMULLIN: That is true. Mr. Mackenzie
28 reminds me that we do have reserves set up for each
29 particular investment that we have, and if the loss
30 is substantial, then it could force us to show a loss

COMMISSIONER MACKENZIE: What average rate do

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that, it would be a rate -- it would be the equivalent

of the rate on the market of 6-1/4 per cent.

COMMISSIONER MACKENZIE: What percentage of

the appraised value of the property?

MR. MACMILLAN: Our policy is 80 per cent.

COMMISSIONER HARROLD: Are they repayable

monthly, generally?

MR. MACMILLAN: With very few exceptions,

they are repayable monthly.

COMMISSIONER GIBSON: Why do you not want

to take a loss on your securities? Why would you

prefer to take a loss on income? Many businesses

think this way, and I just wondered why.

MR. MACMILLAN: I don't know whether there

is any real good reason for it or not. Maybe it is

the conservative nature of those of us in the Maritime

of being a little cautious.

COMMISSIONER GIBSON: But if you could improve

your yield it should not be particularly relevant,

should it -- over the same period of time?

MR. MACMILLAN: That is true. Mr. Mackenzie

reminds me that we do have reserves set up for each

particular investment that we have, and if the loss

is substantial, then it could force us to show a loss



1 in the particular year in which we make the transaction,
2 which is undesirable. So, we would sooner spread it,
3 unless there is a very great difference between the
4 yield of a new issue, or something we could trade for
5 it.

6 COMMISSIONER HARROLD: You mentioned this
7 question of liquidity as far as the League is concerned.
8 Does it have credit with the chartered banks for
9 liquidity purposes?

10 MR. MacMULLIN: Most of the credit unions
11 borrow directly from the League, although there are
12 some that borrow from the banks.

13 COMMISSIONER BROWN: How about co-ops; To
14 what extent do co-ops borrow from the League?

15 MR. MacMULLIN: The co-operatives have not
16 been borrowing a great deal from the League. Actually,
17 we have a number of loans to co-operatives but the most
18 of them would be loans made for production purposes,
19 where we assist a co-operative by small short-term
20 loans so that they in turn can provide, especially
21 to their farmer members, feed for hogs, poultry and
22 things of that nature, and on these loans we take a
23 note from these co-operatives together with an assignment
24 of the feed credit contract with the co-operative
25 established with its members. Outside of those we
26 have a few loans to co-operatives of a mortgage nature
27 for expansion or building or renovations, but the total
28 amount we have outstanding in loans to co-operatives,
29 as you will have noticed from our statement, is
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relatively small.



1 COMMISSIONER HARROLD: Have you got a
2 breakdown as to what proportion of your loans are
3 used for financing durable goods, consumer goods?

4 MR. MacMULLIN: I am sorry, Mr. Commissioner,
5 this is something that we have never done in Nova
6 Scotia by way of statistics either in the League itself
7 or in the government department; that is, to get
8 information on the distribution of loans that are made
9 by our credit unions.

10 COMMISSIONER HARROLD: Would you have a general
11 idea? There is considerable loaning in this field, is
12 there not, as far as credit unions are concerned?

13 MR. MacMULLIN: I would say -- and of course
14 this is purely a personal opinion -- that there would
15 be less credit union financing of durable goods in
16 Nova Scotia than in the provinces to the west. I
17 would think most of our loans in the east here were
18 for vocational needs, for consolidation of debt, and
19 things of this nature. Home improvements would play
20 a large part, but the actual amount in durable goods,
21 in automobile financing and things of this nature, I
22 would suspect is much lower than it is in other
23 provinces. As a matter of fact, even up to the present
24 in many of our credit unions there is a very strong
25 reluctance of the offices to provide credit for
26 automobiles, although I understand in other provinces
27 this is becoming quite a sizeable operation of the
28 credit unions.

29 COMMISSIONER LEMAN: Mr. MacMullin, you
30 make the point in your summation that you don't



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make the point in your summation that you don't



1 feel you are competitors with the other financial
2 institutions, and the reason you give is that you are
3 not in business for profit, and therefore don't have
4 the same motivation for getting business. Yet, in
5 certain other places through your brief you explain
6 the lack of size in the credit unions does hamper their
7 ability to provide a complete service. Those two things
8 are a little bit opposed to each other. What do you
9 think are the factors of growth in the credit unions
10 of Nova Scotia that would ... ?

11 MR. MacMULLIN: Mr. Commissioner, I think
12 there are a number of factors that would be responsible
13 for the growth of credit unions. First of all, I
14 think you have to recognize that Nova Scotia -- and
15 probably the same is true in other parts -- in Nova
16 Scotia credit unions were born out of adversity.
17 Probably down in the United States and maybe in some
18 of the industrial areas of Canada, the reason for the
19 organization of credit unions in many cases was usuary.
20 In Nova Scotia there was no such thing as usuary.
21 When our credit unions got started, it was purely a
22 situation where no credit was available from any source
23 for the vast majority of our people. So that, credit
24 unions were born to provide in the first instance a
25 source of credit, and they have done this admirably
26 well. They have grown by virtue of the fact there
27 has been a lot of educational work done. The credit
28 unions' development has been associated with the adult
29 education programme of the St. Xavier University
30 Extension Department. They have been successful and



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2 people have gradually been raised. More people are
3 conscious of the development of credit unions. More
4 social workers, more leaders in communities are conscious
5 of the contribution they have made and can make, and
6 all these things have been factors in the growth of
7 the credit unions.

8 COMMISSIONER LEMAN: Does the League itself
9 do any promotional work? Does it try to get credit
10 unions started in a town where there is none?

11 MR. MacMULLIN: Yes.

12 COMMISSIONER LEMAN: Do they have a field
13 force for doing this?

14 MR. MacMULLIN: We have a field staff of
15 three people that do practically nothing but educational
16 work with credit unions. The big bulk of their time
17 would be spent in educating the officers and members
18 of the existing credit unions, providing continuing
19 assistance and this kind of thing, with the relatively
20 small portion of their time spent in organization. In
21 Nova Scotia we have been approaching the saturation
22 point in new organizations. We don't want to organize
23 credit unions just for the sake of organizing them,
24 and those areas that do not have credit unions are
25 areas that are not acquainted with credit unions to
26 the same extent. They have to be sold, and we have
27 to wait until the opportune time comes to go in there
28 to all the areas that want credit unions and are
29 interested; we sort of have to search out areas of
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1 case.

2 COMMISSIONER LEMAN: Well, at some place --
3 and I do not remember the exact paragraph -- you explain
4 that the dividends don't make too much difference, at
5 least within reasonable limits -- they don't make
6 too much difference to attract share ownership. I
7 suppose you would say the same thing in interest on
8 deposits etc. On the other hand, if therefore it is
9 in the realm of getting credit from somebody that is
10 the factor of growth, you have got to be competitive
11 somewhere. Which way do you see your competitive
12 advantage going?

13 MR. MacMULLIN: Well, I think if there is an
14 advantage, the advantage is two-fold. First of all,
15 the credit unions have been established in the minds
16 of our people and of our members as being a friendly
17 source of credit and a reliable source of credit, and
18 secondly more and more of our people are becoming
19 conscious of the fact that among all of the lenders
20 the credit union is probably the least expensive --
21 or, one of the lesser expensive forms of credit, and
22 I think if you will examine rates charged by credit
23 unions -- and our maximum rate is 12 per cent; many
24 of our credit unions charge less than this, especially
25 in the rural areas -- when this is compared with
26 chartered banks and with the finance companies and
27 with almost any other source of credit, this compares
28 pretty favourably, and it is further of benefit in
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1 of them carry a loan protection and life savings
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4 so that in no case do they pay more than 12 per cent
5 per annum with in many cases a rebate on interest
6 coming back to the members out of earnings on this.

7 COMMISSIONER MacKEEN: What do you insure
8 them for -- the amount of the loan? Is there a
9 maximum?

10 MR. MacMULLIN: All the loans that are
11 insurable are insured to a maximum of \$10,000 which
12 is the highest loan, of course, that would be insured,
13 but this means that the balance that is outstanding
14 at any particular time by a member is insured against
15 death and in most cases against total and permanent
16 disability.

17 COMMISSIONER GIBSON: How is it that the
18 growth of the credit unions in Nova Scotia has been
19 somewhat less than other parts of Canada in recent years.
20 We have heard from credit unions pretty well across
21 the country and most of them have shown very rapid
22 growth in the last 8 or 10 years, more so than in your
23 organization. Of course, yours is older than most
24 of the others.

25 MR. MacMULLIN: Yes.

26 COMMISSIONER GIBSON: Also the average size
27 of the credit union in Nova Scotia -- and when I say
28 "average", I mean the sort of medium size -- is a good
29 deal smaller than most other parts of Canada. Would
30 you have any comments on that?



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1 MR. MacMULLIN: I can only again, Mr.
2 Commissioner, give you a personal observation on this.
3 I would venture to suggest that this is related very
4 definitely to the general economy of the Maritimes.
5 I think if you will examine -- and no doubt you have
6 or you will -- the credit union movement of New
7 Brunswick or Prince Edward Island, the same thing would
8 apply there, probably even more strikingly than in
9 Nova Scotia. So that our credit union development, like
10 the development of industry and economy generally in
11 Nova Scotia, is related very definitely to our general
12 economic conditions and, as all of you gentlemen are
13 aware, economic conditions in Nova Scotia have not
14 been on a par with the rest of Canada for many years.

15 COMMISSIONER MacKEEN: Might it be that having
16 started first you reached the saturation point of the
17 potential a little ahead of some of the other provinces?

18 MR. MacMULLIN: This would be true as far
19 as organization would be concerned. It would not answer
20 the other questions about dollar growth or the membership
21 growth -- well, membership growth, probably to an
22 extent, yes; but certainly not in itself.

23 COMMISSIONER MacKEEN: I think it might in
24 a lot of places.

25 MR. MacMULLIN: But if you will analyze
26 particular areas of Nova Scotia that are heavily
27 industrialized and where industry has been fairly
28 stable, I think you will find that the credit unions
29 in those areas have been showing relatively good progress,
30 probably progress that would compare with other provinces.



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6 COMMISSIONER GIBSON: The fact the little
7 places have not been growing is true across the country;
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9 larger places that have grown.

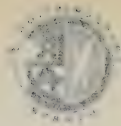
10 MR. MacMULLIN: That is right.

11 COMMISSIONER LEMAN: If we can talk a little
12 bit more about the competitive factor: If you want
13 to be able to continue to compete favourably with
14 other financial institutions in providing service to
15 your members, you have to make it attractive -- these
16 institutions have to attract funds.

17 MR. MacMULLIN: Yes.

18 COMMISSIONER LEMAN: What would you say are
19 the main tools you use for this attraction of funds?

20 MR. MacMULLIN: The biggest tool that we
21 are using, and which we have used, and which we are
22 streamlining to some extent now, and which will be
23 covered, I think, in the extension department's
24 brief, is education. In the past our education programme
25 has been of a fairly general nature, but we probably
26 attempt to try to educate the mass of the people,
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28 At the moment our emphasis is on greater efforts to
29 train the officers of credit unions -- directors,
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1 of the fact they have to give better service in their
2 credit unions, and we feel this would be one of the
3 most important ways of developing greater growth among
4 our credit unions in the province.

5 COMMISSIONER BROWN: I gather from that
6 your emphasis at the moment is on getting more members
7 into existing credit unions rather than providing more
8 credit unions?

9 MR. MacMULLIN: Yes, we are placing more
10 emphasis on our existing credit unions than we are on
11 the new credit unions. This is not suggesting we do
12 not want to organize new credit unions.

13 COMMISSIONER BROWN: No. It is a matter of
14 emphasis.

15 MR. MacMULLIN: Yes.

16 COMMISSIONER LEMAN: Can you see any
17 statistical correlation between the growth of certain
18 credit unions and the rate of dividends paid, or the
19 rate of interest paid on deposits, or the provision
20 of certain services like the chequing service and that
21 sort of thing? Is there any correlation?

22 MR. MacMULLIN: I would not suggest that
23 there is. I think the credit unions that are showing
24 the most promise in Nova Scotia are credit unions that
25 are giving service more so than a matter of dividends.
26 One credit union that I can think of that by far was
27 the credit union that showed more increase in the last
28 couple of years than any other credit union in the
29 province is not paying higher dividends, it does not
30 pay any borrowers' rebate but it does provide exceptionally

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2 years a tremendous degree of confidence in its members
3 and in the general public, as a matter of fact. This
4 credit union is growing very, very rapidly and other
5 credit unions we have looked upon as being more
6 successful than the average have arrived at this
7 stage more from the nature of service to their members
8 than on the mere fact of paying higher dividends.

9 COMMISSIONER BROWN: When you are going
10 after new members do you go after borrowers or
11 depositors?

12 MR. MacMULLIN: We go after depositors
13 although we recognize that if you take in 10 new
14 depositors in all, probably 5 of them will want a loan
15 tomorrow.

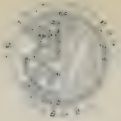
16 COMMISSIONER BROWN: My second point was
17 how many people join a credit union just to get a loan?

18 MR. MacMULLIN: We would suggest there are
19 a fairly large number but I think I would be safe in
20 suggesting that 50 per cent of the new members that
21 will join a credit union today are members that
22 tomorrow or in the very near future would like to borrow
23 from a credit union.

24 COMMISSIONER LEMAN: What about your
25 chequing service in this province? Is it extensive
26 throughout the whole organization or not?

27 MR. MacMULLIN: No sir, we only have six
28 credit unions that operate personal chequing service.

29 COMMISSIONER LEMAN: And has that some
30 relation to their size too? Is it only the large ones?



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COMMISSIONER LEMAN: What about your

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MR. MacMILLIN: No sir, we only have six

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COMMISSIONER LEMAN: And has that some

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1 MR. MacMULLIN: That is right, we have
2 more or less as a league and as a matter of policy
3 suggested that no credit union would offer a personal
4 chequing service until the credit union is on a full-
5 time basis the kind of management and facilities that
6 would ensure the successful operation of this so
7 that to date there are only six credit unions that
8 offer this kind of service.

9 COMMISSIONER LEMAN: And do the arrangements
10 with banks for clearing these cheques work out to your
11 satisfaction?

12 MR. MacMULLIN: Not completely but we look
13 upon it in this way, that the arrangement we have was
14 an arrangement that was mutually agreed upon between
15 the Canadian Bankers' Association and the officers
16 and representatives of the various branches of the
17 credit union movement in Canada. While there are
18 aspects of this we would like to see modified and
19 changed, nevertheless we have entered into this in good
20 faith and we are going along with it. Of course, one
21 of the other aspects of this when it was entered into
22 and mutually understood between us was that the idea
23 was also advanced that this committee or group, if you
24 will, made up of representatives of the Canadian
25 Bankers' Association and the credit union movement
26 across Canada would meet periodically to review this
27 and to exchange their experiences with the new arrangement.
28 Unfortunately, I do not think this joint committee has
29 met since the scheduling was agreed upon back in
30 1958 or 1959 if I remember correctly.



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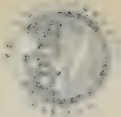


1 COMMISSIONER BROWN: Have these chequing
2 privileges brought with them general increased
3 membership or increased deposits?

4 MR. MacMULLIN: It would be very difficult,
5 sir, to say yes or no to this. I would suggest, though,
6 that these services have not brought a large number
7 of new accounts. I would be inclined to think that
8 the actual number of new accounts that the service
9 has brought has been relatively small. It would be
10 even more difficult to determine the effect the
11 service has had upon the actual growth of the credit
12 union. It is very difficult to say but I do know
13 that the average amount that a credit union would carry
14 on deposit, which is the account that they write the
15 cheques against, is relatively small but you don't know
16 when you are operating a service of this kind how
17 much money is going into the share account of the
18 member that ordinarily would not go in there if he
19 did not have this chequing service. It is very difficult
20 to know exactly.

21 COMMISSIONER LEMAN: Mr. MacMullin, in
22 the operation of the guaranty fund, 20 per cent of
23 earnings, is there an upper limit on how far this
24 should have to go?

25 MR. MacMULLIN: Yes, there is. There is
26 a limit which is 10 per cent of the assets of the
27 credit union. When it reaches the point where it is
28 equal to 10 per cent of the assets of the credit union
29 then the credit union does not have to add to it from
30 there on until the ratio differs again.



COMMISSIONER BROWN: Have these checking

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1 COMMISSIONER LEMAN: Have any reached it
2 yet?

3 MR. MacMULLIN: I do not think so.

4 COMMISSIONER LEMAN: Now, you discuss in
5 paragraph 125 what happens when the demand for credit
6 is higher than what the credit union can meet and then
7 you explain what all the actions that the credit union
8 can then take to meet this situation. Can you find
9 some correlation there between monetary policy at
10 the central authority and these demands upon your
11 members and member credit unions?

12 MR. MacMULLIN: No, I do not think that there
13 is any great sensitivity on the part of the credit
14 unions as far as monetary policy would be concerned;
15 in other words, what I am suggesting is that I assume
16 that you have in mind the fluctuation of interest rates
17 and things of this nature. This does not seem to
18 interfere too much with the credit union on the local
19 level. When you get to the League maybe as we become
20 a little more sophisticated and more conscious of cost
21 it might have some bearing on what we will do at the
22 League level but certainly as far as the local credit
23 union is concerned if it has a demand for money in
24 excess of its own requirements and if it has the
25 kind of board of officers who are conscious of the
26 fact that they want to give service, they are going
27 to provide this service and in 90 per cent of the cases
28 they do borrow from the League and even in the League
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1 over the years.

2 COMMISSIONER LEMAN: But have there been
3 any periods when the League had to send out word or
4 some directive to the member unions that there was a
5 tightness, that even the League faced it and they
6 would have to restrain their ambition to give service?

7 MR. MacMULLIN: No, we have never done that.
8 We have, like any organization, I suppose, at times
9 found that money was as tight or that there was a
10 greater demand for it than we had but rather than
11 encourage the credit unions to tighten their belts
12 we have used the other attack and suggested that they
13 double their efforts to increase the rate of flow of
14 deposits from their members; in other words, rather
15 than to cut down service or to refuse to borrow we
16 have suggested that they try to meet the members'
17 demands either by borrowing or better still by going
18 out to their members and asking the members to increase
19 their participation in the unions.

20 COMMISSIONER LEMAN: Has this been
21 successful?

22 MR. MacMULLIN: To a degree, yes.

23 COMMISSIONER LEMAN: Did they stay with
24 the credit unions after this period of what we might
25 call an emergency?

26 MR. MacMULLIN: If the credit unions were
27 successful in launching a programme that would increase
28 their membership, as a general rule those reserves will
29 stay with the credit union. In particular cases as
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1 period of tight money -- and I am talking about tight
2 money in a very general sense -- we do not attempt to
3 cut back in our loans to credit unions. If there is
4 to be a cutback from the League assistance it would
5 be in the field of mortgage loans and this is the
6 field where we have the large bulk of our money
7 invested so that we would refrain or call a moratorium
8 on mortgages rather than trying to curtail the amount
9 that a credit union could borrow from us.

10 COMMISSIONER LEMAN: Well, this is interesting
11 because on a national basis what you are explaining to
12 us now is that in times of credit stringency when money
13 is scarce it is generally symptomatic of a situation
14 where people want to spend more than they have and
15 you say you want people to save more than they can
16 spend. If we could do that nationally that would be
17 a wonderful solution.

18 MR. MacMULLIN: It sure would be. I do
19 not think Nova Scotia is much different than other
20 provinces in this respect. We recognize we have a
21 large number of members in our credit unions that can
22 save a great deal more than they are and our efforts
23 are always towards the idea of developing thrift so
24 that these people can develop resources of their own
25 in their credit union to take care of their borrowing.

26 COMMISSIONER LEMAN: But this is done through
27 persuasion?

28 MR. MacMULLIN: Yes.

29 COMMISSIONER LEMAN: Do you think it would
30 work on a national basis?



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COMMISSIONER LEMAN: But this is done through persuasion?

MR. MacMULLIN: Yes.

COMMISSIONER LEMAN: Do you think it would

work on a national basis?



1 MR. MacMULLIN: I think it is worth trying.

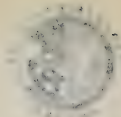
2 COMMISSIONER LEMAN: In other words, if
3 the Bank of Canada could send out to the people in
4 general, "This is a time to save" and--

5 MR. MacMULLIN: We have done it traditionally
6 through the credit union movement. It has been the
7 only actual technique that has been used from the
8 beginning to build our credit union movement in matters
9 of persuasion and education and I think it is safe to
10 say that all of the money that we have in our credit
11 union movement today came in this form because the
12 average member of the credit union is certainly not
13 paying money into the credit union for the return that
14 he enjoys on it. First of all, for the average man
15 the return does not mean anything to him in dollars
16 and cents.

17 COMMISSIONER LEMAN: You mean it is too
18 small?

19 MR. MacMULLIN: It is too small. I think
20 the average member in Nova Scotia has savings of
21 something like \$230 odd. Even if he does have a
22 dividend of 5 per cent or 6 per cent which would be
23 high actually dollar and cents wise it is very
24 insignificant, it would not make much difference to
25 him. If a person has several thousands of dollars
26 then the difference between 3 per cent and 5 per cent
27 would be significant dollar and cents wise.

28 COMMISSIONER LEMAN: It is rather surprising
29 that there would not be under the conditions I have
30 described a tendency for withdrawal of funds from the



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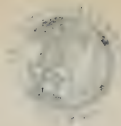
1 credit union.

2 MR. MacMULLIN: There are withdrawals. We
3 have fairly heavy withdrawals in some of our credit
4 unions. This is offset by actually two things.
5 Number one is that throughout the piece and from the
6 very beginning the accent was put on savings and our
7 people by and large have been taught that when they
8 put money in the credit union in the share account,
9 which is the predominant account, that this is permanent
10 saving that it would be a form of sacrilege to withdraw
11 it so everything possible is done to discourage
12 withdrawals.

13 The other reason that to an extent cuts
14 down on the amount of withdrawals is the fact that
15 all these share accounts carry life insurance so that
16 by withdrawing from the credit union or withdrawing
17 part of your savings they automatically cut down on the
18 insurance benefits for themselves and, of course, they
19 are reluctant to do this.

20 COMMISSIONER BROWN: One rather small point.
21 When a credit union is dissolved -- and you apparently
22 have dissolved quite a number -- what happens to the
23 balance of the members you cannot trace? Are they
24 deposited under a trust account some place?

25 MR. MacMULLIN: In recent years if there
26 are any funds left over after the credit union has
27 been liquidated, these funds are transferred to the
28 League stabilization fund and they go in there. Now,
29 generally speaking, the funds that are left over,
30 we can find with few exceptions the owners of these.



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usually the only exception the owners of these

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1 If not the direct owners we find relatives or
2 information on accounts because most of these liquida-
3 tions are taking place in small rural communities,
4 and as you know, in these areas the people do not get
5 lost too easy. There are relatives and friends left
6 in the community who know where they are and it is not
7 too difficult to track them down but if there should
8 be any funds left over these are transferred to the
9 League Stabilization Fund where they may be later
10 claimed by the rightful owners.

11 THE CHAIRMAN: Thank you very much, Mr.
12 MacMullin and Mr. Mackenzie. We have gained a very
13 considerable amount of information from this discussion.
14 We are very grateful to you. We shall now adjourn for
15 five minutes.

16 --- At this point a short recess was taken.

17 THE CHAIRMAN: Father W.I. Roach for the
18 St. Francis Xavier Extension Department.

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21
22 BRIEF OF ST. FRANCIS XAVIER UNIVERSITY,

23
24 EXTENSION DEPARTMENT
25

26 APPEARANCES

27 Father W.I. Roach - Field Worker
28 Dr. Remi Chiasson - Associate Director.
29 -----

30 THE CHAIRMAN: We will now have the submission



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MacMullin and Mr. Mackenzie. We have gained a very
considerable amount of information from this discussion.
We are very grateful to you. We shall now adjourn for
five minutes.
--- At this point a short recess was taken.

THE CHAIRMAN: Father W.I. Rosch for the

BRIEF OF ST. FRANCIS XAVIER UNIVERSITY.

Father W.I. Rosch - Field Worker



1 from the St. Francis Xavier University. Father Roach.

2 FATHER ROACH: Mr. Chairman and members
3 of the Commission, first of all we would like to thank
4 the Commission for giving the Extension Department
5 this opportunity to present a brief.

6 St. Francis Xavier University is deeply
7 conscious of its responsibility to the general
8 community of citizens as well as to the persons who
9 comprise its campus. The Extension Department of
10 this university embarked on a programme of adult
11 education for Eastern Nova Scotia. Some members of the
12 faculty decided to go out from the campus to work with
13 the people in their respective communities. People
14 in the fishing, farming, and mining communities were
15 deeply concerned about their economic needs. They
16 were dissatisfied with their economic conditions.
17 Extension Department leaders soon realized that any
18 programme of adult education must deal first with the
19 most pressing needs of the people. In Eastern Nova
20 Scotia the appropriate field for adult education was
21 found to be in the economic.

22 Credit Unions constitute but a single
23 subdivision of the St. Francis Xavier programme of
24 economic co-operation. The need for savings and
25 credit contributed to the entire economic dilemma of
26 our people. Credit was not so readily available for the
27 ordinary farmer, fisherman and worker as it is today.
28 With considerable study, credit unions were organized
29 to help meet some aspects of their economic problems.
30 Credit unions as established for this area are more



FATHER ROACH: Mr. Chairman and members

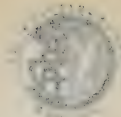
St. Francis Xavier University is deeply



1 than savings agencies and a source of credit. Credit
2 Unions are a potential source of opportunity for people
3 to participate actively in a self-help programme.
4 Successful credit unions stimulate an intellectual
5 activity among members.

6 Discussions about credit and savings led
7 to the establishment of institutions for these services
8 and proved to be an excellent form of adult education.
9 Study groups have been the major educational technique
10 of the Extension Department. During periods of study,
11 people were given a chance to look at the problems
12 of their area and seek solutions. Credit unions
13 provided also a measure of economic independence and
14 permitted members to see room for group action in other
15 fields.

16 The very duties and responsibilities of
17 credit union officers require informed leaders. Because
18 these officers change frequently many people are permitted
19 an opportunity for responsibility. Regular training
20 programmes must be carried out for these officers.
21 During the past year, for instance, some two hundred
22 meetings were held in the counties of Richmond and
23 Inverness for the purpose of training credit union
24 officers. Twenty-two credit union organizations were
25 included in this programme. Two fieldworkers from
26 our Extension Department and one from the Nova Scotia
27 Credit Union League led discussions involving present
28 and future credit union operations. Officers were
29 given an opportunity during this programme to study
30 the Credit Union movement in relation to the operations



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1 of their organization.

2 The responsibilities of credit union
3 officers provide a form of adult education that is not
4 a mere filler for people with time on their hands.
5 It is a chance for people to learn to handle their
6 own financial affairs. They put their talents to the
7 service of others. Through their wrestling with real
8 problems leaders continue to be developed.

9 For the general membership of credit
10 unions the importance of a programme of planned
11 personal savings is stressed. This emphasis on a
12 spirit of thrift leads to family financial security
13 and provides a solid basis for credit union organization.
14 Gradually programmes in the field of financial guidance
15 are being developed to foster greater facility for the
16 member in handling his income. Credit unions illustrate
17 possibilities for increasing real income by careful
18 use of credit and improved buying habits. Credit union
19 programmes of education encourage people to think
20 critically about many things, to consider their real
21 credit and consumer needs.

22 One of the projects of credit union
23 education committees is the organization of school
24 credit unions. These are designed to give the student
25 an opportunity to learn the value of small but regular
26 savings. They provide the student with an understanding
27 of the basic principles of credit unions. Responsibility
28 for management and bookkeeping rests mainly with the
29 students.

30 This perhaps seems an activity beyond the



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1 field of adult education. There is a very apparent
2 need for more capable financial management by adults.
3 The results of careless habits of personal finances
4 are serious. They affect the family security. These
5 reasons compel us to introduce ideas of financial
6 responsibility at the elementary and high school level.

7 Improvements in credit union leadership
8 are bound to be reflected in the overall development
9 of communities. In becoming acquainted with their
10 problems, people acquire a social vision. Credit
11 Unions help develop an awareness of social and economic
12 responsibilities among members. It follows naturally
13 that members become alive to the other responsibilities
14 we associate with good citizenship.

15 Leaders in the credit union in each community
16 are leaders also in other phases of community life.
17 An example among many are the credit union leaders
18 in Grand Etang and Cheticamp, two neighbouring
19 communities in North Inverness County. These are the
20 same leaders who own and operate the co-operative
21 fish plants which provide the major source of employment
22 for the communities. Economic conditions in these
23 communities contrast markedly with the poverty existing
24 even twenty years ago. Leaders responsible for
25 community development are well informed on many topics.
26 They are acquainted with modern techniques of fishing,
27 fish processing, international monetary policies
28 affecting fish markets, through to ideas of community
29 planning.

30 In our original submission, we have cited



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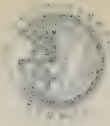


1 other examples to illustrate the undeniable contributions,
2 direct and indirect, of credit unions to community
3 development. A credit union can be as flexible in
4 its services to the community as the needs of that
5 community determine, and as sound business management
6 will permit.

7 We want to thank you, Mr. Commissioner,
8 for giving our Extension Department the opportunity
9 to present reasons for our part in promoting credit
10 unions. We regard the Credit Union Movement as an
11 instrument of social reform, a means of bringing social
12 justice into our economic development. It is a method
13 of bringing information to people while permitting
14 them a place in the control of their own social and
15 economic lives. While being a group effort, credit
16 union activity develops individual self-expression.
17 It is a programme of thought and action, permitting
18 ownership and scope for creative thinking. It is a
19 very effective tool in teaching people many basic
20 ideas through action.

21 We are accused of emphasizing the economic.
22 We do not apologize for it. Economic activity is not
23 merely a means of enriching those engaged in it. It
24 has a social and educational function of supplying
25 commodities, services, and information to the community.
26 Credit union organizations usually succeed in projecting
27 membership vision far beyond the narrow and obvious
28 advantages to a much wider concern.

29 Credit unions are an essential part of the
30 programme of the Antigonish Movement to help free people



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1 raise their standards, promote economic democracy,
2 and in the process, develop themselves more fully as
3 intelligent citizens; thus taking a great stride
4 towards being masters of their own destiny.

5 THE CHAIRMAN: Father Roach, I found this
6 a very interesting brief, I may say. It is quite
7 unusual in certain respects and I would like to know
8 a little more detail about your educational programme.
9 My impression was from reading the brief that your
10 programme was educational and it had also a social
11 aspect and to some extent it was a missionary programme.
12 Perhaps this is putting it too strongly.

13 FATHER ROACH: It is less a missionary
14 programme than anything else. We work in co-operation
15 with the Credit Union League. We work in co-operation
16 with any other form of co-operative. Actually before
17 the League was organized we did the work of setting up
18 the credit unions.

19 THE CHAIRMAN: You do attempt to promote
20 the formation of credit unions?

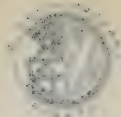
21 FATHER ROACH: Oh yes.

22 THE CHAIRMAN: It was in that sense I used
23 the word "missionary".

24 COMMISSIONER MACKINTOSH: I do not think
25 the Chairman meant the proselytizing movement.

26 THE CHAIRMAN: Oh no. In your educational
27 programme you do this through the Extension Department.
28 What sort of classes do you have? Are they held
29 at the university or are they held out on the ground?

30 FATHER ROACH: It depends on what type of



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1 work we are doing. The reason I am here is because
2 my work with the Extension Department is concerned
3 mainly with credit unions. We always go out to different
4 communities. I travel all over the island of Cape
5 Breton and we do not hold any meetings at the university.
6 This was started years ago and it was founded there
7 were very few people you could get to come to the
8 university because of the cost or working conditions
9 so we go out into the community and it is mainly through
10 evening classes or meetings.

11 THE CHAIRMAN: These are regular members
12 of the university that do this?

13 FATHER ROACH: It is a separate department.

14 THE CHAIRMAN: There are permanent members
15 of the staff who do this?

16 FATHER ROACH: Yes.

17 THE CHAIRMAN: And they meet groups of
18 people and attempt to interest them in credit unions
19 in different parts of the province?

20 FATHER ROACH: This is part of our work,
21 yes.

22 THE CHAIRMAN: And teach them elementary
23 principles of credit and finance as it applies to their
24 personal means?

25 FATHER ROACH: Yes.

26 THE CHAIRMAN: Then, you mentioned certain
27 study groups. Does that mean that the educational
28 process is continuing all the time in each branch
29 once it is established?

30 FATHER ROACH: Yes.



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1 THE CHAIRMAN: And you keep in contact with
2 them?

3 FATHER ROACH: Yes. Take, for example,
4 in any credit union area I may put on a programme this
5 year and in three years' time you may have a completely
6 different set of new officers or may not have but it
7 could be a completely new group of officers and they
8 may know nothing about a credit union. They have been
9 members probably but as far as running a credit union
10 and deciding what policy should be followed or determining
11 their planning or putting on a promotion programme
12 they do not know anything about it so it has to be a
13 continuing programme of education. You have new men
14 coming into this field all the time.

15 THE CHAIRMAN: The movement, I suppose,
16 would be growing to some extent, would it not?

17 FATHER ROACH: Yes.

18 THE CHAIRMAN: And constantly expanding,
19 requiring more members on your staff to become engaged
20 in the work. I am rather curious to know just briefly
21 if you can give us some idea of the content of the
22 educational programme, what sort of subjects are
23 taught, how you break down the various subjects?

24 FATHER ROACH: For credit unions or extension
25 work in general?

26 THE CHAIRMAN: Well, would you go out and
27 have some little course of education for officers in
28 the union?

29 FATHER ROACH: We go out and take, for example,
30 the duties and obligations of abboard of directors, what



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1 their duties are. We explain that and tell them how
2 they would have to go about performing the function
3 of a director of a credit union; likewise the supervisory
4 committee of the credit union and quite often we help
5 the treasurers. Many of these treasurers are part-time
6 treasurers and then we help them to put on a promotion
7 programme in their community. Quite often we go into
8 an area, take a look at a credit union and find out
9 what we think to be the main problems facing that
10 credit union so we put on a programme to deal with
11 the problems facing it. It may be delinquency of
12 loans, many times being too conservative in granting
13 credit and all kinds of problems that they might have
14 and we try to deal with the problems that face each
15 individual credit union.

16 THE CHAIRMAN: Do you teach them anything
17 about keeping accounts and that sort of thing?

18 FATHER ROACH: Yes.

19 THE CHAIRMAN: Teaching on a very practical
20 level?

21 FATHER ROACH: Yes.

22 THE CHAIRMAN: Do you deal with the
23 sort of reserves that they should have?

24 FATHER ROACH: Yes, the actual every day
25 running of the credit union and in one particular
26 credit union something may be very important. Quite
27 often a credit union can get into a serious problem
28 without realizing it. They may be in trouble with
29 delinquency or putting out too much money on long-term
30 lending or something like that and if there is not



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1 somebody coming around regularly to put it across
2 to them these people who are directors can run into
3 serious problems without realizing they are getting
4 into a problem at all.

5 THE CHAIRMAN: Are the unions which you
6 have contact with all members of the Nova Scotia
7 Credit Union League?

8 FATHER ROACH: Yes, all members of the
9 League.

10 COMMISSIONER LEMAN: Father Roach, in
11 your brief you explain to a certain extent the concepts
12 that guide and have guided the movement but I would
13 like to know a little bit more about how you visualize
14 this question of social justice as between those who
15 get the service from credit unions and those who
16 save and put their funds in it. Mr. MacMullin spoke
17 to us a few minutes ago and explained the question
18 of dividends or returns, that money deposited with the
19 credit union was not a very active factor in the growth
20 of the credit union or in having members stay with it
21 etc. He did not think that was the main factor.
22 However, as the credit unions grow and become large
23 they can both improve their services and presumably
24 can become more competitive with other types of financial
25 institutions and get into the same fields, such as the
26 mortgage business. In such a case what are the criteria
27 you would go by in instructing people as to what is a
28 reasonable interest rate for a certain type of service?
29 What is the division of the spoils, in other words,
30 between the savers and the borrowers?



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1 FATHER ROACH: I recommend the 12 per
2 cent rate as far as loans are concerned. Most of the
3 credit unions on the Island of Cape Breton charge less.
4 Many of them are 6 per cent annual rate of interest,
5 and they haven't any profit left over; they can't pay
6 much of a dividend. In some cases they can but it is
7 because they are not paying the treasurer enough or
8 they have very low expenses. I recommend they charge
9 12 per cent. If all credit unions were charging 12
10 per cent and loaning their money and turning it over
11 they would have enough to pay a reasonable dividend,
12 if a dividend is so important. It is not so important,
13 but I think it may help to bring more money in in savings,
14 but the 12 per cent rate of interest does permit a
15 credit union to pay a reasonable dividend -- 3 per cent
16 or 4 per cent or 5 per cent. If it is any way efficiently
17 operated it can pay 3, 4 or 5 per cent dividend.

18 COMMISSIONER LEMAN: And therefore the
19 difference between the 3, 4 or 5 per cent which you pay
20 the savers, in effect, and the 12 per cent that the
21 borrower pays would be the cost of administration and
22 the cost of serving as intermediary between borrower
23 and lender?

24 FATHER ROACH: There is insurance and cost
25 of paying the staff and running an office, and one
26 thing and another.

27 COMMISSIONER LEMAN: We were also told that
28 there were more direct ways of trying to attack the
29 problem of cash stringency at times when there is
30 evidence that in an economy people are spending too much



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1 and the rate of saving is not high enough to sustain
2 this rate of spending, and the way to get them to change
3 is to encourage them to save, but suppose you try that
4 and you are very successful -- I am talking about a
5 large economy like the whole of Canada, for instance --
6 do you believe the variation of interest rates to be
7 a good factor to help in controlling this sort of
8 problem?

9 FATHER ROACH: You mean interest rate in the
10 form of an interest rate paid to the savers -- a
11 dividend?

12 COMMISSIONER LEMAN: No, mostly the borrowers,
13 for instance, to discourage borrowing through charging
14 higher interest rates.

15 FATHER ROACH: As far as I am concerned,
16 apparently this exists all over North America, that the
17 average person does not know anything about interest
18 rates or the cost of credit. He wants to borrow \$500
19 and all he is interested in is how much is the payment.
20 The average type of worker is not too concerned with
21 the cost of credit. This is one of the things we are
22 trying to promote -- getting them to be more aware of
23 the cost of credit. But the people are not conscious
24 of it and they are looking for a \$2,000 loan on a
25 car, or a \$1,000 loan, and that is all they are
26 interested in -- getting the loan and knowing how much
27 the payment is, and if they can meet the monthly payment
28 they are satisfied. We don't seem to have much success
29 in talking interest rates to people; they are not
30 interested in that.



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apparently this exists all over North America, that the average person does not know anything about interest rates or the cost of credit. He wants to borrow \$500 and all he is interested in is how much is the payment. The average type of worker is not too concerned with the cost of credit. This is one of the things we are trying to promote -- getting them to be more aware of the cost of credit. But the people are not conscious of it and they are looking for a \$2,000 loan on a car, or a \$1,000 loan, and that is all they are interested in -- getting the loan and knowing how much the payment is, and if they can meet the monthly payment they are satisfied. We don't seem to have much success in talking interest rates to people; they are not interested in that.



1 COMMISSIONER LEMAN: There must be some
2 point at which interest rates are so high it discourages
3 spending.

4 FATHER ROACH: The only way we have any
5 success at all is, if we can point out that \$500 can
6 cost \$50 or \$100 or \$200, they may take notice, but
7 we seldom have success with regard to interest rates.

8 COMMISSIONER LEMAN: For instance, in the
9 consumer loan field, especially the purchase of durable
10 goods, quite often the consumer does see the interest
11 rate as such, but he does see how much this particular
12 article is going to cost him per week or per month.

13 FATHER ROACH: Very few will total it up.
14 We tried to do a little more education in this line,
15 and we have a home economist working with us. We
16 would like to do much more in this field, but as far
17 as we can find the average person does not realize at
18 all how much the credit is costing him. Sometimes
19 when we do explain this they more or less do not
20 believe us; it sounds too impossible for them to
21 believe. But, as far as we are concerned, the people
22 in Canada and the United States are not conscious of
23 it.

24 COMMISSIONER BROWN: Have you any suggestion
25 as to how they may be made conscious of it?

26 FATHER ROACH: They all understand dollars.
27 They know the difference between \$20, \$30 or \$50, and
28 if there was some way of telling people when they come
29 in for a \$1,000 loan for 18 months, "This is going to
30 cost you \$200", they would understand that. However,



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1 the monthly payments they do not understand. There
2 are so many different ways of calculating the interest
3 rate: You might get 6 per cent in one form -- it is
4 almost impossible to compare the different ways.
5 6 per cent in one form is completely different from
6 6 per cent in another form of interest. Quite often
7 we will get certain companies who are giving a 6 per
8 cent discount for new cars, or something like that,
9 and we will compare it with our cost in the credit union,
10 and they are higher than 12 per cent, and the persons
11 says, "We are getting a 6 per cent loan", but we know
12 it is more than a 12 per cent loan in the credit union.
13 If we could make this information available to people --
14 and the only way I can see for them to understand it
15 is to tell them that such and such a loan is going to
16 cost them so much.

17 COMMISSIONER LEMAN: I think what you are
18 trying to explain to us now is that some people through
19 ignorance pay too much for credit?

20 FATHER ROACH: That is right.

21 COMMISSIONER LEMAN: And you would like to
22 protect them against this?

23 FATHER ROACH: Well ---

24 COMMISSIONER LEMAN: I am talking of the
25 other phenomenon: Suppose you find the economy as
26 a whole in a country, or even locally -- a section of
27 the economy -- tending through influences that come
28 from outside all of a sudden to save too little and
29 spend too much. These people through a certain rigidity
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1 unions, have been used to getting credit for certain
2 purposes at 12 per cent and for certain other purposes
3 at 7 per cent etc., and this has become rather
4 accepted: Now, suppose you are unsuccessful in
5 convincing them through persuasion that they should
6 save more; you find them spending too much and the
7 economy revving up too fast: Would you be against the
8 play of interest or a rise in interest rates to serve
9 as a discouragement?

10 FATHER ROACH: I don't think it would work.
11 Most people who are looking for credit would take it
12 at any cost, for small personal loans. There may be
13 a few who would say, "It is too costly", but most
14 of our workers, maybe 85 per cent or 90 per cent,
15 would take it at any cost.

16 COMMISSIONER BROWN: Are you also saying
17 they would save at any interest rate too, that it
18 doesn't matter whether it is 2 per cent, 3 per cent
19 or 4 per cent?

20 FATHER ROACH: For the small saver the
21 dividend does not mean too much. For the large saver,
22 maybe then the dividend would count, but we haven't
23 too many of them. We have many different forms or
24 techniques that we use to try and get people to save,
25 but we just keep using them over and over again, and
26 sometimes they work for a while, and then we change to
27 something else, and we use many different techniques.

28 COMMISSIONER MacKEEN: Would you go so far
29 as to say that probably 80 per cent or 90 per cent
30 of the people don't understand percentage at all?



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1 FATHER ROACH: They don't; that is my
2 opinion, because we can get into an argument ourselves
3 on this when we are trying to explain it ourselves.

4 THE CHAIRMAN: They do understand the fixed
5 amount per month?

6 FATHER ROACH: It is not my experience --
7 they don't. A person comes in for a loan; they are
8 looking for a \$500 or a \$1,000 loan, and if the monthly
9 payment fits their budget they will take it. Quite
10 often they don't realize how many months it is for.

11 THE CHAIRMAN: That is what I was going to
12 ask -- whether they would ask if it would be for two
13 years or three years.

14 FATHER ROACH: No.

15 THE CHAIRMAN: That doesn't interest them.

16 FATHER ROACH: If the monthly payment can
17 fit their budget they are satisfied.

18 THE CHAIRMAN: They can visualize what that
19 is.

20 FATHER ROACH: It is usually only \$10 a
21 month; it is "only" such and such an amount, and that
22 agrees with them usually. The advertising in this line
23 is quite strong and people are certainly encouraged
24 to borrow, and this payment is only a low payment, but
25 not too many people are aware of the total amount.
26 We have the opinion -- and we may be wrong -- but you
27 can go into a rural community and put on certain
28 programmes that will raise their standard of living by
29 raising their income a couple of hundred dollars ,
30 or \$400 or \$500 a year, but we feel that if we could



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or \$400 or \$500 a year, but we feel that if we could



1 train enough people to use credit wisely we could
2 increase their buying power by \$400 or \$500 a year
3 without one cent of a raise in income, because too
4 many people, as far as we are concerned, are putting
5 too much money towards the cost of credit, and the
6 money is not buying the goods they need. If we could
7 get more people to use credit unions than banks I
8 think they would have more money to buy the goods they
9 need; and of course any money that goes into the credit
10 union is returned to their own community, whereas most
11 of the other institutions operating in our area are
12 either American or Upper Canadians. In Nova Scotia
13 our thoughts are that everything we have belongs to
14 somebody else. We have only scratched the surface,
15 and we should be doing much more, I suppose.

16 COMMISSIONER LEMAN: If the play of interest
17 rates in your view is not very effective in this kind
18 of society, then under the circumstances I have described
19 the only other solution is allocation of resources --
20 how to allocate credit to the most worthy or most
21 pressing needs, or something like that. Suppose there
22 is not enough savings: Let us take the group we have
23 in mind as being a limited group; and there are so
24 much in savings available for granting credit to others:
25 If you are not letting the interest rate structure
26 change at all, then your only choice is to allocate
27 credit to the most pressing need, isn't it?

28 FATHER ORACH: I think as far as the credit
29 union movement in Nova Scotia is concerned, if we can
30 get our credit unions into the position where they can



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 get our credit unions into the position where they can



1 give good service efficiently and can compete favourably
2 with other institutions as far as service is concerned,
3 that we will have enough savings to fulfill our loan
4 demand. We can get enough savings; considering the
5 savings and the borrowing powers of the independent
6 credit unions, I think we will have enough to meet
7 our loan demand -- not in the mortgage field.

8 THE CHAIRMAN: Suppose you didn't get enough
9 to meet your demand for loans.

10 FATHER ROACH: Our experience is that we
11 are getting enough.

12 THE CHAIRMAN: But I am suggesting, supposing
13 you don't get it; supposing you meet that situation,
14 as you might any time; supposing you have not enough
15 to go around; How do you allocate the amount which
16 you have? How do you decide who is the person who should
17 have it and who is the person who should have to wait?

18 FATHER ROACH: We would give preference to
19 the small borrower. That is one thing we would do.
20 Certainly, when I go around the different credit unions
21 I discourage long-term borrowing and I discourage
22 mortgages. We give them as much information as we
23 can on co-operative housing -- in fact, we work with
24 them -- also on fishermen's loans and farmer's loans,
25 but we certainly discourage long-term borrowing and
26 mortgage loans. Some long-term people we direct to the
27 League, but on the personal loans we feel there is
28 enough money in savings to look after it. In fact,
29 we could almost double the amount of money we loan
30 out at the present rate of savings. We have been very



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we could almost double the amount of money we loan

out at the present rate of savings. We have no



1 conservative in our policies as far as loaning out
2 money is concerned.

3 COMMISSIONER LEMAN: Father Roach, I was
4 trying to draw you more in the view of the national
5 problems in relation to this basic concept. Suppose
6 you are the governmental authority and you do find
7 your economy all of a sudden going a little too fast
8 and labour is temporarily fully employed and some
9 inflationary tendencies have begun to make themselves
10 felt so strongly that there is reason to worry, and
11 the reason to worry is that perhaps your prices --
12 let us say your prices are going up 6 per cent per
13 year, and the rate of savings is going up by a lower
14 percentage, and people find themselves after a while --
15 especially if they were satisfied with a 3 per cent
16 return on their savings -- that their net real value
17 of savings after three or four years has gone down:
18 This is a serious problem for the authority, isn't it?

19 FATHER ROACH: Yes.

20 COMMISSIONER LEMAN: Now, what do they do?

21 FATHER ROACH: I don't think I would go out
22 and try to persuade people to save on that particular
23 account. I try to get them to save for other reasons --
24 to save for the security involved, for the security
25 for themselves and their families, and to give them
26 a chance to borrow money when they have money on savings
27 -- when they have a record of regular savings their
28 ability to borrow is probably much greater. But as
29 far as the credit union movement is concerned, I don't
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1 dividend: We will never pay more than 5 per cent,
2 and even that is not going to interest too many people
3 because we hit a lot of people with small amounts.
4 We have tried different techniques, and one of the most
5 successful is the school credit union. The school
6 credit unions savings programme is working very well,
7 and I think if it continues to work and develop it
8 could be a means of getting our people back to the
9 idea that savings is a good thing. I think we have
10 to change the attitude of our people. At one time
11 I suppose people saved much more money, but most people
12 have lost the habit of saving, but with the new school
13 credit union programme I think there may be a chance
14 we can again get the people back into the idea that
15 saving is not such a bad thing. We may be able to
16 get more people to save through this school credit union.
17 As far as dividends are concerned, I don't see an answer
18 there. I don't think we can encourage many more people
19 to save much more money because of the dividend we
20 are going to pay.

21 COMMISSIONER LEMAN: Isn't it a fact, though,
22 that a good dividend could tend to offset any inflation
23 taking place in the value of the savings? You will agree
24 with me it is rather a disillusionment to anyone who
25 has painfully saved \$100 for five years to find that
26 the purchasing power has gone down to \$75? It is a
27 discouraging thing?

28 FATHER ROACH: There is no easy answer, as
29 far as we are concerned, about this business of savings.
30 It is a very difficult one, and when we go into a



dividend: We will never pay more than 5 percent, and even that is not going to interest too many people because we hit a lot of people with small amounts. We have tried different techniques, and one of the most successful is the school credit union. The credit unions savings programme is working very well, and I think if it continues to work and develop it could be a means of getting our people back to the idea that savings is a good thing. I think we have to change the attitude of our people. At one time I suppose people saved much more money, but most people have lost the habit of saving, but with the new school credit union programme I think there may be a chance we can again get the people back into the idea that saving is not such a bad thing. We may be able to get more people to save through this school credit union. As far as dividends are concerned, I don't see an answer there. I don't think we can encourage many more people to save much more money because of the dividend we are going to pay.

COMMISSIONER: That is a fair, sound, and that a good dividend could tend to offset any inflation taking place in the value of the savings? You will agree with me it is rather a disillusionment to anyone who has painfully saved \$100 for five years to find that the purchasing power has gone down to \$75? It is a disillusioning thing.

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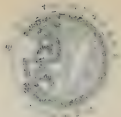


1 community, generally speaking the credit union officers
2 will say, "What are you going to do to help us to
3 increase our savings?" -- this is the common answer
4 we get in every credit union. But, as far as we are
5 concerned, we have never had much success in this
6 business of dividend to increase savings. It may have
7 helped a little, but not too much.

8 COMMISSIONER LEMAN: Father Roach, I would
9 like to ask you another question: We did talk with
10 Mr. MacMullin about it earlier this afternoon: Apparently
11 the Credit Union League in Nova Scotia feels that it
12 would welcome some more supervision by government
13 because of the cost of this supervision. Have you
14 anything to tell us about this?

15 FATHER ROACH: Well, I certainly would agree
16 that more supervision would help the credit unions
17 a lot -- could do a lot to help the credit unions.
18 Who should pay for it -- I don't know. But, more
19 supervision would help the credit union movement in
20 Nova Scotia, and a little more authority either on the
21 part of the Inspector or the Credit Union League could
22 also be a help to the credit union movement. Our
23 credit unions are too independent, I think, and we can
24 make recommendations to the League or the Inspection
25 Department or the Inspector, but if the Board of
26 Directors happens to be a little stubborn, they will not
27 take our advice.

28 COMMISSIONER LEMAN: In what areas principally
29 do you find them going astray -- the way they allocate
30 their funds -- the sort of loans they tend to make?



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Mr. MacMillan about it earlier this afternoon: Apparently the Credit Union League in Nova Scotia feels that it would welcome some more supervision by Government because of the cost of this supervision. Have you anything to tell us about this?

FATHER ROACH: Well, I certainly would agree that more supervision would help the credit unions a lot -- could do a lot to help the credit unions. Who should pay for it -- I don't know. But, more supervision would help the credit union movement in Nova Scotia, and a little more authority either on the part of the Inspector or the Credit Union League could also be a help to the credit union movement. Our credit unions are too independent, I think, and we can make recommendations to the League or the Inspection Department or the Inspector, but if the Board of Directors happens to be a little stubborn, they will not take our advice.

COMMISSIONER LEMAN: In what areas principally do you find them going astray -- the way they allocate their funds -- the sort of loans they tend to make?



1 FATHER ROACH: Long-term loans is one thing,
2 and mortgages. You take, for example, they have a good
3 number of members who have been good members for 10
4 or 15 years with regular savings, and ten of them
5 come in looking for \$5,000 each to build a home. Well,
6 the credit union probably is not in a position to give
7 this mortgage loan to the ten individual members, but
8 quite often they will, and the trouble is that in
9 five or six months, or a year, they are in serious
10 trouble; they have no more money to meet the demands
11 for small loans. This is a problem. Delinquent loans
12 is a problem.

13 COMMISSIONER LEMAN: This is a case of putting
14 too many eggs in one basket. They make too few loans
15 that are too large?

16 FATHER ROACH: Yes.

17 COMMISSIONER LEMAN: And you are thinking
18 about this from the point of view of the liquidity
19 and safety of the union itself.

20 FATHER ROACH: Well, not only that, but if
21 they put out a lot of their money on long-term loans,
22 say, for 15 years, it will take 15 years before they can
23 re-loan all of that money, and in the meantime there
24 are going to be many people coming in looking for
25 the small loan, and, after all, this is our main type
26 of business, and we are not going to have money for it.

27 COMMISSIONER LEMAN: But do you see a
28 government supervisory body taking action in that
29 particular field?

30 FATHER ROACH: Allowing, say, a certain



RECORDS SECTION

FATHER ROACH: Long-term loans is one thing, and mortgages. You take, for example, they have a good number of members who have been good members for 10 or 15 years with regular savings, and ten of them come in looking for \$2,000 each to build a home. Well, the credit union probably is not in a position to give this mortgage loan to the ten individual members, but quite often they will, and the trouble is that in five or six months, or a year, they are in serious trouble; they have no more money to meet the demands for small loans. This is a problem. Delinquent loans is a problem.

COMMISSIONER LEMAN: This is a case of putting too many eggs in one basket. They make too few loans that are too large?

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COMMISSIONER LEMAN: But do you see a government supervisory body taking action in that

FATHER ROACH: Allowing, say, a certain



1 percentage of their money outstanding to be on long-
2 term loans?

3 COMMISSIONER LEMAN: Well, could this be
4 done perhaps through the law itself regulating the
5 percentage of the total funds available to any one
6 loan or that type of business?

7 FATHER ROACH: Yes, it could be.

8 COMMISSIONER LEMAN: Because the supervisory
9 body could not very well use authority that is not
10 covered by the law, can it?

11 FATHER ROACH: Apparently the Ontario
12 Credit Union League have more authority as far as
13 supervising the credit unions than our League in
14 Nova Scotia. There are certain things which they seem
15 to be able to do with the credit unions that we cannot
16 do in getting management to make certain changes in
17 particular area credit unions. I don't know exactly
18 what they are but they have more authority in supervising
19 their credit unions than our League has in Nova Scotia.

20 COMMISSIONER LEMAN: Are there specific
21 advantages in a credit union in belonging to the League
22 that the League would have sufficient bargaining power
23 to exercise the right amount of authority?

24 FATHER ROACH: Drastic measures, I think,
25 would probably cut off their insurance if they did but
26 usually any credit union would have to go very far
27 before they would take these measures. They may refuse
28 to grant them the money for loans because of certain
29 operations that are going on in the credit union but
30 right now I do not see that our League has very much



percentage of their money outstanding to be on long-

COMMISSIONER LEMAN: Well, could this be

done perhaps through the law itself regulating the
percentage of the total funds available to any one

loan or that type of business?

FATHER ROACH: Yes, it could be.

COMMISSIONER LEMAN: Because the supervisory

body could not very well use authority that is not

covered by the law, can it?

FATHER ROACH: Apparently the Ontario

Credit Union League have more authority as far as

supervising the credit unions than our League in

Nova Scotia. There are certain things which they seem

to be able to do with the credit unions that we cannot

do in getting management to make certain changes in

particular area credit unions. I don't know exactly

what they are but they have more authority in supervising

their credit unions than our League has in Nova Scotia.

COMMISSIONER LEMAN: And now, Scotia

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1 authority in correcting things that you may not like
2 in local credit unions. They can go pretty far before
3 the League can step in. There is not enough supervision
4 and not enough authority.

5 COMMISSIONER LEMAN: Well, I just have one
6 more question to ask you of a rather general nature.
7 You probably cannot answer me with figures but in
8 your experience with the existing unions do you find
9 that there is a good turnover of leading personnel in
10 this unions or does it happen that they tend to stick,
11 they find some people who manage quite well and these
12 people stay in for a long time and there is not very
13 much replacement?

14 FATHER ROACH: I would say there is a tendency
15 for them to stick but there are some credit unions who
16 have set a policy that after six years you have to
17 change. We have some credit unions that have that
18 in their own particular by-laws that a supervisory
19 committee or a board of directors cannot remain for
20 more than six years. Two terms are the maximum they
21 can remain and some credit unions have not got this
22 and I think there is that tendency for directors to
23 continue on for years and years. In some cases it is
24 a good thing but in some cases it does not help the
25 credit unions.

26 COMMISSIONER LEMAN: Why does this come about
27 because working for a credit union is not a very lucrative
28 occupation and on the other hand it takes a good deal
29 of devotion. What happens at the annual elections of
30 officers? Do you find that the membership tends to



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27 because working for a credit union is not a very lucrative
28 occupation and on the other hand it takes a good deal
29 of devotion. What happens at the annual elections of
30 officers? Do you find that the membership tends to



1 re-elect people or is there a little jockeying for
2 position going on?

3 FATHER ROACH: I would think that it is
4 mainly because in almost all the communities, especially
5 the rural communities, there is only a small group of
6 people who are really interested in promoting the
7 credit unions. Others are interested in attending it,
8 they are good members etc., but when it comes to attending
9 meetings we always have a small group attending the
10 meetings and because of this we have not too many to
11 choose from at any given time so when it comes time
12 to elect the Board of Directors or a member of the
13 Supervisory Committee the small attendance at meetings
14 may be one of the reasons and these persons are doing
15 a fairly good job on the board and people would like
16 to put those persons back on the board.

17 COMMISSIONER BROWN: I would like to ask
18 one question on a matter of principle. We have heard
19 from some of the other people in the finance business
20 on a commercial basis that one of the elements in the
21 competition between themselves and credit unions which
22 they have regarded as being unfair competition has been
23 the absence of taxation. We are not thinking of taxation
24 on the dividend or on the rebates of interest because,
25 after all, those could be adjusted by calling them
26 interest instead of dividends but taxation to the extent
27 of the reserves that are built up every year. Would
28 you care to comment on the philosophy behind the reasons
29 why, in your opinion, this reserve should be exempt
30 from taxation or why it should not carry its share of

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position going on?

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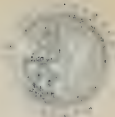
why, in your opinion, this reserve should be exempt

from taxation or why it should not carry its share of



1 the burden of running the country?

2 FATHER ROACH: Well, you will realize it is
3 a very difficult question to answer. The only thing
4 I can say is that our movement, the St. Francis
5 Xavier Extension Department went in and are trying
6 mainly to raise the standards of living of the people
7 in the communities and mainly in the rural communities --
8 fishing and farming -- and we have used this particular
9 vehicle, credit unions and co-operatives. We always
10 have in mind that we are there to help the people in
11 the community and the profit we make is not important
12 at all and we have in some instances established in
13 fishing areas -- communities that were very, very poor,
14 too poor to receive an education or a very low standard
15 of education. We have gone into many of these
16 communities and put up co-op stores and fishing plants.
17 We have completely changed these fishing villages and
18 now they are more prosperous so the profit aspect of
19 the credit union movement was not our objective. It
20 was their own savings and any of the money that was
21 left over goes back into the community. Credit unions,
22 for example, will invest in institutions in the community
23 that no other group will invest in. They spend a lot
24 of money in education, they are very good on giving
25 scholarships especially to sons and daughters of their
26 own members and in cases like that they always have
27 this idea of promoting the general welfare of the local
28 community. I think that any institution that would go
29 out and work as hard to try and promote the general
30 welfare of the community and put profits away in the



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1 background, I think that is a good reason to be exempt
2 from taxation.

3 COMMISSIONER BROWN: If profits are not
4 a motive then why should not such profits as are
5 generated be subject to taxation?

6 FATHER ROACH: Any surplus that we receive
7 is given back to the people, the ordinary working
8 people -- farmers, fishermen, industrial workers.

9 COMMISSIONER BROWN: It is re-invested in
10 the community, yes, but this applies to other
11 institutions too.

12 FATHER ROACH: Well, I think there is quite
13 a difference. I think the finance companies, there
14 must be considerable profits made by someone in the
15 finance companies.

16 COMMISSIONER BROWN: Yes.

17 FATHER ROACH: There is no individual in
18 the credit union.

19 COMMISSIONER LEMAN: If they are considerable,
20 the taxes are considerable too.

21 FATHER ROACH: But there is no individual
22 in the credit union movement in Nova Scotia who is
23 making any profit. There are people who are being paid
24 to manage a credit union or work for the League but
25 there is no one in Nova Scotia making a profit in the
26 credit union. There may be a few people getting 3
27 per cent or 4 per cent dividend on the savings they
28 have but there is no profit going to any individual.
29 It is all going to help the community.

30 COMMISSIONER LEMAN: But this is true of

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have but there is no profit going to any individual.

COMMISSIONER LEMAN: But this is true of



1 taxation, is it not?

2 FATHER ROACH: Then it is just another form
3 of taxation.

4 COMMISSIONER LEMAN: Well, taxation goes
5 to help the whole community so on that same principle
6 there would no reason why they should not in policy
7 make this contribution to the whole community.

8 FATHER ROACH: But I think we are doing a
9 number of things ---

10 COMMISSIONER LEMAN: You are doing it
11 directly rather than letting the government do it?

12 FATHER ROACH: We are doing things directly
13 and we are doing things to try to help -- we may not
14 be successful from a dollar point of view because we
15 are not as large and because we are doing these things
16 I think we should get every consideration. For example,
17 in New Waterford in the past few years they built a
18 new hospital and the building of a new school --
19 New Waterford is a mining town. They have closed two
20 or three mines now and one is going to be -- no one
21 is interested. The Credit Union League was one of the
22 first organizations to take bonds. The local credit
23 union took \$70,000 in bonds. I am sure there are
24 many more places where New Waterford could have invested
25 \$70,000 instead of the New Waterford hospital. The
26 town may collapse in a few years but we are out to try
27 and help the community and the institutions in the
28 community. Now, should we deserve special consideration
29 for this? I think so.

30 COMMISSIONER BROWN: I just wanted your

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COMMISSIONER LEHMAN: Well, taxation goes

FATHER ROACH: Then it is just another form

taxation, isn't it?



Nethercut & Young

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Toronto, Ontario

1 comments. Thank you.

2 THE CHAIRMAN: Thank you very much Father
3 Roach. We shall now adjourn until 9.15 tomorrow
4 morning.

5 *Deputy Minister of Justice*

6 *Deputy Minister of Justice*

7 *Deputy Minister of Justice*

8 *Deputy Minister of Justice*

9 *Deputy Minister of Justice*

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Royal Commission on Banking and Finance

Hearings
held at
Halifax

Vol.

23

Date.

June 12 1962



Official Reporters
J. J. Nethercut and R. J. Young
Toronto, Ont.

THE COMMISSION

AND FINANCE
HEARINGS HELD AT HALIFAX

June 12th, 1962

THE COMMISSION

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| 12 | The Honourable Dana Harris
Chief Justice of Ontario
Toronto, Ontario |
| 13 | Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Windsor, Ontario |
| 14 | Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta |
| 15 | Mr. Paul H. Newman
Montreal, Quebec |
| 16 | Mr. John G. MacKenzie
Corporation Executive
Halifax, Nova Scotia |
| 17 | Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario |
| 18 | Mr. H. A. Hampson
Secr |



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Toronto, Ontario

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ROYAL COMMISSION ON BANKING

4

AND FINANCE

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Hearings held at Halifax,
Nova Scotia, on Tuesday,
June 12th, 1962.

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THE COMMISSION

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The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

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Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

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Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

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Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

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Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

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Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

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Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

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Mr. H.A. Hampson - Secretary

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Mr. Gilles Mercure - Joint Secretary



Halifax, Nova Scotia
Tuesday, June 12th, 1962.

--- At 9.15 A.M. the hearing commenced.

THE CHAIRMAN: This morning we have a
submission from the Canborough Corporation.

SUBMISSION OF THE CANBOROUGH
CORPORATION

APPEARANCES

Mr. John Moore	Solicitor
Mr. G. D. Forsyth	National Trust Company Limited
Mr. Michael Boyd	Greenshields Incorporated
Mr. J.T. Stott	Greenshields Incorporated

THE CHAIRMAN: Mr. Moore, it is not
necessary to stand up unless you prefer to do so.

MR. MOORE: My remarks are very short.
Mr. Chairman and gentlemen my name is John Moore and
I am associated with the firm of Stewart, Smith
and MacKeen. I am the Canborough Corporation's
representative and counsel in Nova Scotia.

We appreciate this opportunity of appearing
before you, all the more because we were able to give
such little advance notice. We also appreciate being
allowed to present our views in Halifax.

While the company has its head office in

Halifax, Nova Scotia
Tuesday, June 12th, 1962.

THE CHAIRMAN: This morning we have a submission from the Canborough Corporation.

SUBMISSION OF THE CANBOROUGH
CORPORATION

APPEARANCES

Mr. John Moore - Solicitor

Mr. Michael Boyd - Greenhalgh Incorporated

Mr. J.T. Stott - Greenhalgh Incorporated

THE CHAIRMAN: Mr. Moore, it is not necessary to stand up unless you prefer to do so.

MR. MOORE: My remarks are very short.

Mr. Chairman and gentlemen my name is John Moore and I am associated with the firm of Stewart, Smith and MacKenzie. I am the Canborough Corporation's representative and counsel in Nova Scotia.

We appreciate this opportunity of appearing before you. All the more because we were able to give such little advance notice. We also appreciate being allowed to present our views in Halifax.



Nethercut & Young

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Toronto, Ontario

1 Toronto it is designed to be national in scope and
2 ^{be}
3 we hope that we will/registered to do business in
4 Nova Scotia shortly.

5 I may, if I could, quote from a release
6 made to the press yesterday concerning Canborough
7 Corporation:

8 " A group of institutions among whom
9 are the National Trust Company Limited,
10 Industrial Acceptance Corporation Limited
11 the Canadian Life Assurance Company and The
12 Greenshields Corporation Limited have
13 jointly formed a new company, the Canborough
14 Corporation, for the purpose of holding
15 mortgage loans insured under the National
16 Housing Act, 1954.

17 This company, incorporated as a
18 loan company under the Loan and Trust
19 Corporations Act of Ontario, is designed
20 to fill a need that has been apparent for
21 some time. In recent years home construction
22 has depended to a large extent on government
23 funds through the agency of the Central
24 Mortgage and Housing Corporation. It was
25 felt that a new institution should be
26 created through which funds from the
27 private sector could be channelled into
28 insured mortgage loans. In its maturity
29 Canborough will be an active buyer and
30 seller of N.H.A. mortgages and it is intended
that the Corporation will make a substantial



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1 contribution to the liquidity of the
2 secondary market in mortgages.

3 It is hoped that an impetus will be
4 given to the development of a market by
5 the formation of the Canborough Corporation
6 which will concentrate its activities in
7 this field. The Company will make use
8 of the services of existing institutions
9 rather than originate and service N.H.A.
10 mortgages itself. Its role is designed
11 to supplement the services of existing
12 institutions."

13 Also representing the Canborough Corporation
14 are David Forsyth of the National Trust Company and
15 Michael Boyd and Perry Stott of Greenshields
16 Incorporated. I will ask Mr. Boyd to say a few further
17 words in introduction.

18 THE CHAIRMAN: Mr. Boyd.

19 MR. BOYD: Our company was registered to
20 do business under the Loans and Trust Corporations
21 Act of Ontario on May 25th of this year and we are
22 sorry that our brief suffers from the haste with
23 which it was written. We can only apologize for its
24 inadequacies and we feel also that it is a pity we
25 have not had a year's operation behind us at this
26 stage because we would be then in a position to present
27 a much more useful and comprehensive brief. Despite
28 the short period which we have been in existence
29 you may be interested to know that we have already
30 acquired nearly \$4 million of N.H.A. mortgages in the



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the short period which we have been in existence

you may be interested to know that we have already

received many applications from M.H.A. companies in the



1 secondary market.

2 To summarize our brief we feel that it is
3 desirable that a good secondary market in N.H.A.
4 mortgages be developed. We recognize that Central
5 Mortgage and Housing Corporation can not issue
6 debt capital to the public because this would not
7 contribute in any way to the development of a secondary
8 market. On the other hand, Central Mortgage and
9 Housing Corporation should be prepared to continue
10 providing mortgages for the secondary market through
11 sales from its own portfolio thus assuring a continuing
12 supply of mortgages into the market.

13 Another recommendation is that uniformity
14 be given to N.H.A. mortgages by insuring those out-
15 standing mortgages currently insured 98 to 100 per cent.
16 We feel that an impetus will be given to the develop-
17 ment of a secondary market by the formation of new
18 companies whose roles will be primarily in that
19 market. In order to encourage investment dealers to
20 become active in the money market the Bank of Canada
21 provided them with lender of last resort facilities
22 and we feel that if Central Mortgage and Housing
23 Corporation would utilize this legislative power to
24 the assignment of mortgages this would similarly
25 encourage active participation in the mortgage market.

26 Our experience is mainly -- and here I am
27 speaking of all the representatives -- is mainly in
28 the investment field and we are not competent to
29 discuss the more technical aspects of mortgages.
30 However, with this proviso we would like to attempt



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1 to answer any questions you may have.

2 THE CHAIRMAN: Questions?

3 COMMISSIONER MACKINTOSH: I have some
4 questions I would like to ask. I understand from what you
5 said that you propose to obtain your additional
6 capital other than the subscribed capital by putting
7 out security issues and investing them in N.H.A.
8 mortgages originated by other concerns. What sort of
9 security would you contemplate to issue?

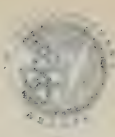
10 MR. BOYD: Well, we would hope to issue the
11 full range of corporate securities. On borrowing
12 we would have to issue short-term debt, medium-term
13 debt and long-term debentures. Our short-term debt
14 would probably be in the form of deposit receipts
15 because we are a loan company. We would also hope
16 to issue at a suitable time preferred shares and we
17 have already, of course, subscribed to common shares.
18 So that this would cover practically the full range.

19 COMMISSIONER MACKINTOSH: Do you propose to
20 limit your mortgage purchases to N.H.A. insured
21 mortgages or to go into conventional fields?

22 MR. BOYD: Well, sir, certainly in the early
23 stages we propose to limit ourselves to N.H.A. mortgages.

24 COMMISSIONER GIBSON: If I may just carry
25 on from Dr. Mackintosh's question you propose to issue
26 the obligations you spoke of, deposit receipts and
27 common stock. Would you not be issuing long-term
28 securities?

29 MR. BOYD: Yes, we would issue medium-term
30 debentures and long-term debentures.



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1 COMMISSIONER GIBSON: The idea being you
2 would permit a means which would more or less give
3 with the unknown maturities of the C.M.H.C. mortgages?

4 MR. BOYD: This is quite correct. As far
5 as one can expect the maturities of the N.H.A. mortgages
6 would fall in the 14 to 16 year category, their average
7 life, not their average maturity. You have to make
8 assumptions about the rate at which borrowers will
9 pay their mortgages off and this is not very easy to
10 do and it is one of the difficulties involved such
11 as paying a yield on mortgages, for example. The
12 14 to 16 year term, if you are a borrower, is a very
13 difficult term to borrow. It is very rare, I think,
14 for a corporation to go to the market for many of that
15 term and we would expect that we would meet this
16 requirement by borrowing substantially at each end
17 of the market -- long-term debentures, 20 and 25-year
18 debentures and short-term deposit receipts of 30 days
19 to 365 days in the money market so that we could expect
20 that our average liabilities, the term of our liabilities,
21 would match our assets.

22 COMMISSIONER GIBSON: Would you have some
23 medium-term debentures as well?

24 MR. BOYD: We would, if it was considered
25 desirable to borrow in this term. It is not a very
26 easy place to borrow either. Sometimes you can place
27 5,6,7-year debentures quite satisfactorily and other
28 times there is no demand for them at all, but we feel
29 that we will be flexible and will be one of our
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1 borrowing we will be able to take them so that we are
2 not crowding other people in one particular section
3 of the market.

4 COMMISSIONER LEMAN: All these will be
5 unsecured securities?

6 MR. BOYD: Well, that is not quite right,
7 sir. To begin with, as a loan company, we operate
8 under the Loan and Trust Corporations Act and therefore
9 under the supervision of the Registrar of that Act.
10 Now, one of the problems involved is obviously that
11 if you form a new company which has not been in
12 existence it can only qualify its debt under the
13 Canadian Life Insurance Companies Act as legal
14 investments if you secure that debt suitably and we
15 will be securing the mortgages and other assets which
16 we own and issue secured debt against it.

17 We will also have to have assets other than
18 mortgages because one of the requirements of our act
19 is that we must keep 20 per cent of the amount we
20 borrow in the short-term market in assets other than
21 mortgages and those assets are, broadly speaking,
22 Ontario Government issues, Canadas but not corporate
23 securities.

24 COMMISSIONER LEMAN: Securing mortgages of
25 this type, is that going to present a bit of a technical
26 problem. You will have to put the mortgage in the
27 name of a trustee, will you, or what?

28 MR. STOTT: This brings up certain legal
29 problems which we are basically not competent to
30 discuss from a legal point of view but in essence that

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1 is exactly what we are doing. We are securing them
2 with trustee and our legal representatives seem to
3 have worked out a formula that satisfies them this is
4 possible.

5 COMMISSIONER BROWN: Will this be on a
6 fixed proportion?

7 MR. STOTT: Well, in effect all our assets
8 will be placed with the trustee in order to make our
9 own securities legal under the Insurance Companies
10 Act.

11 COMMISSIONER BROWN: The debentures will still
12 be secured under a general trustee deed?

13 MR. STOTT: No, it will be a general.

14 COMMISSIONER BROWN: On a basis of proportion
15 of property against every \$1,000?

16 MR. STOTT: There won't be specific mortgages
17 assigned against specific securities; it will be
18 general trustee.

19 COMMISSIONER MACKINTOSH: I do not know
20 whether this is a fair question or not but what sort
21 of yield spread would you hope would be available
22 for you within which to operate?

23 MR. STOTT: I think the yield spread will
24 vary quite tremendously from time to time especially
25 in the long term but because we do have to offset
26 the uncertain maturities with a mixture of long and
27 short under the circumstances there will be a wider
28 spread between our short-term securities and our
29 long mortgage assets.

30 COMMISSIONER MACKINTOSH: It was not clear

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1 from your brief whether you proposed to service these
2 mortgages yourself to get into the position of an
3 approved lender or leave that entirely to the approved
4 lenders from whom you buy mortgages?

5 MR. BOYD: We would hope to be an approved
6 lender because we would hope to avail ourselves of
7 the ability at some time in the future to borrow money
8 from Central Mortgage and Housing Corporation. To do
9 that under the present statutes I understand we would
10 have to be an approved lender. However, to answer
11 the main part of your question we have no intention
12 as at this time certainly of servicing or originating
13 mortgages ourselves. We just do not feel that there
14 is a need to set up new servicing agents and new
15 originating agents. This is not a problem in this
16 country to us.

17 Another reason why we would want to be an
18 approved lender, however, would be so that we could
19 bid for mortgages when C.M.H.C. offers mortgages
20 by tender. Only investment dealers and approved lenders
21 may bid for the mortgages and we would like to be
22 able to bid in our own name.

23 COMMISSIONER MACKINTOSH: In paragraph 5 you
24 talk about the lack of liquidity in mortgages. Do
25 you think this is the main reason for the alleged
26 inadequacy of mortgage funds?

27 MR. BOYD: I think it is, indirectly. I
28 think it is because these mortgages are illiquid
29 that they are investments for only certain types
30 of investors and I think this has been and is a



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25 you think this is the main reason for the alleged
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1 problem but I think to solve it you can do it in two
2 ways; you try to bring greater liquidity to the
3 mortgages and you try and develop a device for bringing
4 other types of capital into the mortgage field.

5 COMMISSIONER MACKINTOSH: What source of
6 additional funds do you see if the mortgage instrument
7 is made more liquid? Where are these monies coming
8 from -- just a matter of making the mortgages a little
9 more competitive in the market and edging the other
10 competitors over?

11 MR. BOYD: Well, sir, I would say this,
12 that liquidity implies substitutability. One of the
13 things that is meant by liquidity is that you have
14 the opportunity to select one type of instrument
15 against another and you broaden your choice. I do
16 no think that just making a mortgage liquid is
17 necessarily going to mean that you will widely increase
18 the types of investors who would be prepared to buy
19 mortgages but I do feel that it might do so and also
20 that it should encourage the investors who presently
21 buy mortgages to buy more of them. It may give
22 encouragement in that way.

23 MR. STOTT: I think also there is probably
24 a larger and a much broader market for corporate
25 securities outside of Canada than there is for our
26 mortgages.

27 COMMISSIONER MACKINTOSH: Yes, I would
28 think that was certainly true.

29 COMMISSIONER GIBSON: What kind of volume
30 do you look forward to in this area? I know you can't



...the ...

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Toronto, Ontario

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1 say precisely, but is it \$50 million or \$20 million
2 ...?

3 MR. BOYD: We have avoided so far even for
4 our own purposes making projections into the future
5 because we don't see any way that we could achieve
6 a meaningful projection. We are allowed to borrow
7 $12\frac{1}{2}$ times, or we hope to be permitted $12\frac{1}{2}$ times our
8 paid up capital reserve. Under the Act under which
9 we are incorporated we have a statutory right to
10 four times our capital in reserve and we may request
11 that this be increased up to a limit of $12\frac{1}{2}$ times.
12 So that, for every million paid in capital, whether
13 common shares or preference shares, we would be
14 permitted to borrow \$ $12\frac{1}{2}$ million which would enable
15 the purchase of \$ $13\frac{1}{2}$ million of total assets. The
16 speed with which we will be able to expand our
17 activities will depend to a very/^{great} extent on the avail-
18 ability of mortgages. For example, the Central
19 Mortgage and Housing auction that is coming up on
20 June 26th is for \$15 million, and this does not seem
21 a very large amount at this stage for the interest
22 that is there when you consider that it is the
23 fifth tender and in each tender there has developed
24 a greater interest. So that, the availability of
25 mortgages at a price that is practical would dictate
26 the speed with which we can expand. I know it is
27 not very helpful to your question.

28 COMMISSIONER GIBSON: I am trying to get
29 more of an idea of how big a job you think there is
30 to be done here; that is all. I wasn't trying to get

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our own purposes making projections into the future MR. BOYD: We have avoided as far even for

\$50 million or \$20 million



1 your own rough guesses.

2 MR. STOTT: I think, sir, these are rather
3 unusual circumstances, that it is more likely in times
4 that the reverse is true, and there is an excess
5 supply of mortgages and at that time our expansion
6 would depend on our ability to finance.

7 COMMISSIONER GIBSON: Can you tell us what
8 sort of capital you have, or anticipate having?

9 MR. STOTT: We have currently authorized
10 \$10 million paid up capital but at some stage we
11 would contemplate also having a public company.

12 COMMISSIONER GIBSON: Have you announced
13 how much capital has been paid up yet?

14 MR. BOYD: We haven't announced, no sir.

15 MR. FORSYTH: It is just one of those points
16 in connection with the company that we did not make
17 public at the moment.

18 COMMISSIONER HARROLD: In connection with
19 that, I think in your opening statement you said
20 something about the ownership: Have you a complete
21 list of the ownership of the company?

22 MR. MOORE: National Trust Company Limited,
23 Industrial Acceptance Corporation Limited, Canada
24 Life Assurance Company, The Greenshields Corporation
25 Limited.

26 MR. BOYD: These are the principal institutions
27 interested in the corporation. As a loan company we,
28 in fact, have 26 shareholders. A number of those
29 are statutory and are individuals.

30 COMMISSIONER MacKEEN: You said you had



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1 \$4 million invested already.

2 MR. BOYD: Nearly \$4 million, yes sir.

3 COMMISSIONER MacKEEN: Is that by way of
4 debentures or share capital?

5 MR. BOYD: How have we borrowed the money?

6 COMMISSIONER MacKEEN: Is that ^{by} way of current
7 bank loans?

8 MR. BOYD: It is by way of current bank
9 loans and paid up capital. We are still in the final
10 stages of studying the questions relating to our
11 trust indenture. We hope this will be cleared up
12 in the near future so that we are free, should we
13 consider it proper, to go to the market.

14 COMMISSIONER MacKEEN: What is your
15 authorized capital?

16 MR. BOYD: It is \$10 million.

17 THE CHAIRMAN: In paragraph 5 of your brief
18 you mention an insufficient flow of money into mortgages
19 and that investment into this area is a vital economic
20 and social need. Could you elaborate on that?

21 MR. BOYD: Well, this refers to the private
22 sector, sir.

23 THE CHAIRMAN: Not to the N.H.A.?

24 MR. BOYD: Well, to the N.H.A.'s yes, but
25 it means that in our opinion Central Mortgage and
26 Housing has had to make up the gap that was left in
27 the private sector.

28 THE CHAIRMAN: Yes, but if you include the
29 N.H.A. activities would you still say there is an
30 insufficient flow of money into mortgages.



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THE CHAIRMAN: Yes, but if you include the

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1 MR. BOYD: No, I don't think I would.
2 This depends on what you consider the desirable
3 level of housing construction in the country is.

4 THE CHAIRMAN: Well, I suppose it is a
5 question of whether there are mortgages available for
6 people who are prepared to buy houses. There may be
7 a great many people who would like houses, but they
8 can't afford to pay for them. I am just curious to
9 know what evidence you have that there is an insufficient
10 flow of money into mortgages?

11 MR. STOTT: I think this paragraph is
12 slightly misleadingly worded. We were referring only
13 to an insufficient source of capital from the private
14 sector. There is, in fact, probably sufficient funds
15 going into it, but it is being supplied by government
16 rather than the private sector.

17 THE CHAIRMAN: But you are going to deal
18 only in N.H.A. mortgages.

19 MR. STOTT: Yes, but we are going to find
20 our sources of capital from the private sector rather
21 than government.

22 COMMISSIONER MacKEEN: Your point is there
23 is an insufficient flow of capital to provide a
24 secondary market in existing mortgages?

25 MR. STOTT: Well, to provide the desired
26 level of public housing from the private sector.

27 COMMISSIONER MACKINTOSH: I think what is
28 missing here is that N.H.A. mortgages are originated
29 by approved lenders, and in respect of many of them
30 all the government does is guarantee or insure the

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1 mortgage, but in addition Central Mortgage and Housing
2 has, itself, gone in and originated mortgages and,
3 of course, put up the capital for them, and the
4 suggestion here is that to generate more capital in
5 the private sector to take over some of the mortgages
6 which have been originated by Central Mortgage and
7 Housing?

8 MR. STOTT: Yes, that is right; in other
9 words, Central Mortgage and Housing was forced into
10 larger direct lending activities than it probably
11 would have liked to have been in because of an
12 inadequate flow of money from the private sector. I am
13 afraid paragraph 5 is badly drafted.

14 COMMISSIONER MACKINTOSH: Is it your
15 impression that these auctions that C.M.H.C. has held
16 have broadened the mortgage market or have they
17 merely allowed approved lenders to acquire mortgages
18 wholesale rather than retail? Has this brought new
19 lenders into the market?

20 MR. STOTT: I think it has brought some
21 new lenders into the market. I guess the bulk^y of
22 them did end up in the approved lenders' hands again,
23 but speaking as an investment dealer, we have purchased
24 a considerable number of these mortgages on tender
25 and placed them in the hands of other than approved
26 lenders and to some buyers who had never previously
27 purchased N.H.A. mortgages.

28 COMMISSIONER MACKINTOSH: Looking at the
29 question of the opportunity of using the kind of
30 service your company proposes to offer, do not some



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1 of the approved lenders like to turn some of their
2 mortgages over? You speak as if the only source was
3 going to be Central Mortgage and Housing?

4 MR. STOTT: We hope to find many other sources
5 and some of our recommendations suggest we are prepared
6 to pay for this service. We hope to have existing
7 institutions originate mortgages for us as agent.
8 We hope to purchase them from institutions who wish
9 to sell for the purpose of turning them over, but we
10 do feel the bulk of N.H.A. mortgages are held in the
11 hands of these people to whom at the moment liquidity
12 is not an over-riding problem.

13 COMMISSIONER MACKINTOSH: My impression was
14 that in the case of some of the approved lenders, at
15 any rate, the flow of new funds did not necessarily
16 equal the activity of the builders whom they had
17 been accustomed to finance, and they like to maintain
18 their connection with the builders and they were often
19 willing to peel off a layer of old mortgages to get
20 money to keep these builders going.

21 MR. BOYD: I think that is right and also
22 I think a number of approved lenders are very interested
23 in the servicing aspect of mortgages, where they have
24 large branch systems that are suited to the servicing
25 of mortgages, and they would like to be able to sell
26 mortgages and retain the servicing. This, of course,
27 suits us because we do not intend to encroach on
28 this aspect of servicing.

29 COMMISSIONER MACKINTOSH: This actually,
30 I would judge -- this ability to hold mortgages but



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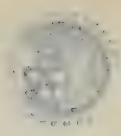
1 have the servicing done by a large organization is
2 the biggest step towards broadening the market, because
3 I don't think you can service mortgages unless you
4 have a great many mortgages and can stand the overhead,
5 and if somebody else will do the servicing you can
6 make smaller parcels.

7 MR. BOYD: I think that is right, but I
8 think it is even more fundamental that there surely
9 is no shortage of servicing agents in the country,
10 and there is no point in creating another one to
11 compete with them.

12 COMMISSIONER LEMAN: I am always a bit
13 surprised at the insistence upon insured mortgages.
14 As soon as any institution has a sufficiently large
15 block of mortgages, they would not need insurance,
16 would they? You can self-insure it if you hold a
17 sufficiently large number of mortgages.

18 MR. BOYD: I think you can; I think that
19 is right. Are you implying when you say, "self-insure"
20 that you should, in fact, incorporate an insurance
21 programme as a reserve against liabilities into the
22 operation, or simply that if you own enough mortgages
23 that there is no need for insurance, that the default
24 would be the write-off factor?

25 COMMISSIONER LEMAN: I had in mind lots
26 of things, but one of the points I had in mind is
27 that C.M.H.C. has made mortgage money available for
28 new construction only, and not for the purchase of
29 existing houses. In the conventional mortgage market
30 don't you think there has been more of a gap, more of



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of things, but one of the points I had in mind is
that C.M.H.C. has made mortgage money available for
new construction only, and not for the purchase of
existing homes. I think there has been more of a gap, more of



1 a difficulty for the average purchaser or house owner
2 than there has been in the field of new residences?

3 MR. STOTT: I think that is probably true,
4 but part of our contention is that there has been
5 insufficient capital for new construction, much less
6 for financing existing housing, and at some time in
7 the future I think if you succeed in filling the first
8 gap by some method or other, then the second one
9 should certainly be looked at.

10 COMMISSIONER BROWN: Yes, but you agreed
11 earlier that N.H.A. was, in fact, filling the gap as
12 far as new construction was concerned?

13 MR. STOTT: No, we implied government was.

14 COMMISSIONER BROWN: Yes, so the question
15 arises of filling the gap for the mortgages on existing
16 houses -- would you care to comment on the possibility
17 of the N.H.A. insurance being extended to such
18 mortgages and thereby giving them greater liquidity,
19 because it seems to me that the essential of getting
20 liquidity for mortgages is to have a lender of last
21 resort or have insurance or acceptance or something
22 so that each mortgage is trading on the basis of its
23 yield rather than what is behind it, and you are looking
24 at the insurance as being the security behind it,
25 and this is the problem in the mortgaging of existing
26 houses, that each one is just one piece of paper.

27 MR. STOTT: I hope I am trying to answer
28 the question you asked.

29 COMMISSIONER BROWN: It was probably very
30 involved.



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1 MR. STOTT: Our feeling is that basically
2 the private sector as such has been having difficulty
3 in supplying sufficient mortgage money to finance
4 new construction, much less attempting to increase
5 capital outlays to finance resales of older houses
6 at this stage.

7 COMMISSIONER BROWN: We have heard elsewhere
8 the suggestion that the N.H.A. mortgages should be
9 available on existing houses. I am asking for your
10 comments on this suggestion.

11 MR. STOTT: I think if it were you would
12 have to have a great deal more government money poured
13 into it than there is at the moment.

14 COMMISSIONER BROWN: You don't think this
15 would encourage the private money to come in ?

16 MR. STOTT: At a stage some time much later
17 I think it might, but at the moment I think there is
18 not really sufficient private money to finance new
19 construction, much less older houses.

20 MR. FORSYTH: I might perhaps continue just
21 a little on that: So far as existing construction is
22 concerned, certainly recently there is a considerable
23 amount of mortgage money available. Perhaps one
24 area is the fact mortgage amounts are not high enough
25 in relation to the selling price of the home, and
26 whereas on new construction the owner puts up, say,
27 15 per cent, in existing construction he perhaps puts
28 up about 30 or 33 per cent. Is that the area -- is
29 that what you are thinking of?

30 COMMISSIONER BROWN: No. I was asking for

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up about 30 or 35 per cent. Is that the area -- is
that what you are thinking of?

COMMISSIONER BROWN: No. I was asking for



1 your comments on the suggestion that has been made
2 in other places that the facilities of the N.H.A.
3 insured mortgage should be existing construction.
4 The question is, to what extent do you think this is
5 feasible and to what extent do you think this would
6 bring more private money in by helping it to build
7 up this liquidity on mortgages you are talking about?

8 MR. BOYD: Well, presumably this would
9 imply a more careful system of valuation of houses
10 by Central Mortgage and Housing, and presumably the
11 rate would be fixed at the same rate or in the same
12 manner that new construction is, but what I can say
13 is that should it come about -- and it certainly is
14 an area that we should look into -- there is no reason
15 why we would not naturally buy mortgages short in that
16 way.

17 COMMISSIONER LEMAN: What I had in mind
18 also was, presumably in part the purpose of C.M.H.C.
19 was to encourage construction and therefore get the
20 flow of capital directed into housing. Do you think
21 it will be possible for C.M.H.C. to become counter-cyclical
22 by putting some capital out for new construction, to
23 encourage new construction and reduce the flow of funds
24 to that sector and more into existing housing when you
25 don't want the industry to run too fast?

26 MR. BOYD: I think in any case housing is
27 a counter-cyclical factor. I think that mortgage
28 money normally becomes much easier to find when
29 interest rates are low, which normally would be a
30 period of slack economic activity, whereas institutions

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1 and investors look at mortgages differently, I think,
2 when interest rates are high -- and interest rates
3 are high normally in periods when money is made tight,
4 normally to restrain the economy from over-indulging
5 itself -- although , we may see other factors, such
6 as the exchange rate, influencing this.

7 I am not sure I have got your argument about
8 existing construction also being anti-cyclical.

9 COMMISSIONER LEMAN: Well, it was not
10 an argument, it was a question: But from the point
11 of view of making capital available to individuals
12 who want to be house owners I am asking basically
13 is the gap worse for existing houses, is it more
14 difficult for the house owner to acquire -- let
15 us be more precise and talk about a range of houses.
16 Let us say houses under \$20,000, is it more difficult
17 for an individual to buy an existing house than to
18 buy a new house that would cost the same amount?

19 MR. BOYD: Well, I think from the point of
20 mortgage another argument as far as existing
21 construction is concerned is that again when interest
22 rates are low there is no shortage of money into either
23 field and investors are looking for that type of
24 security; they are trying to increase their yield
25 even if this means going into assets which they may
26 regard as slightly less desirable under normal
27 circumstances.

28 Now, when interest rates get high I suspect
29 that as far as new housing is concerned the N.H.A.
30 setup at the moment is with C.M.H.C. you can still



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1 loan into the housing field, but the conventional lending
2 field which has no money when people want to put money
3 in would suffer.

4 This would only be cured, as far as I can see,
5 if your suggestion that Central Mortgage or N.H.A.
6 insured mortgages on existing construction took place.
7 But this opens up question of whether you want to
8 encourage housing at a time when economic activity is
9 advancing and the government presumably is trying
10 to put a damper on it.

11 THE CHAIRMAN: When you speak about times
12 when interest rates are high you are referring to
13 interest rates other than mortgage rates; mortgage
14 rates are less apt to vary, are they not?

15 MR. BOYD: I think that is true, sir.

16 THE CHAIRMAN: So that if mortgage interest
17 remains generally at the same level within certain
18 limits ---

19 MR. BOYD: Certainly in the past I think
20 it is true that with the N.H.A. rate in existence
21 as a maximum rate under which N.H.A. loans could be
22 made you have had a stability of rates in the mortgage
23 field and certainly when interest rates get higher,
24 even if the differential between other long rates
25 and mortgages closed up you would still, I think get
26 and have had in the past an effect where investors
27 are looking for ways of putting money out at higher
28 rates of interest in a form that will protect them
29 and their investments will still be there when the
30 cycle continues and interest rates go down. In other



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1 words, they look there for non-call features and this,
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3 that apart from certain multiple dwelling units there
4 is not protection to the investor that his investment
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8 low I think, as I said before, investors start looking
9 around into those areas where they can find a
10 high return in anything because they are not nearly
11 so worried about the non-call feature protecting all
12 investors from that point of view.

13 THE CHAIRMAN: And they are more likely
14 to go into mortgages?

15 MR. BOYD: They are more likely to go into
16 mortgages as I think we have seen in the past twelve
17 months.

18 THE CHAIRMAN: On the other hand if your
19 enterprise is successful and mortgages become more
20 liquid interest on mortgages may tend to fall.

21 MR. BOYD: We may tend to squeeze ourselves
22 out of business.

23 THE CHAIRMAN: I am not suggesting it would
24 fall that much.

25 MR. BOYD: I hope it does not, sir, but
26 I think there should be an element of that involved.

27 THE CHAIRMAN: And that would be a very
28 salutary thing.

29 MR. BOYD: Well yes, it would if you took
30 the nation's interest. I think you see what we would



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2 in front of you because we have had no experience
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5 rates are low and people are looking for a mortgage
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9 best of our ability when interest rates are high that
10 we would be picking up mortgages. The factor that
11 you mentioned before may prove embarrassing, that is,
12 if corporate rates which we would be dependent on
13 for funds rose and there is an inelasticity in
14 the mortgage rate we would be squeezed out but this
15 would depend entirely on the actions in the present
16 setup which Central Mortgage would take on the N.H.A.
17 rate.

18 COMMISSIONER GIBSON: Would you favour a
19 more flexible N.H.A. rate both from this point of
20 view and from the point of view of making available
21 conventional funds?

22 MR. BOYD: I think, to take a very fundamental
23 approach to it, perhaps an indirect approach, that it is
24 always desirable to let a rate be as free as possible.

25 In this case I would say this, that it
26 would be more desirable to see the N.H.A. rate move
27 more frequently by small amounts than suddenly take
28 a tremendous leap, say, from 6 per cent to 6-3/4
29 per cent and it is interesting that Central Mortgage
30 and Housing Corporation's last move was a quarter of



in front of you because we have had no experience
as an operating company which we hope will do certain
things and only time will tell but when interest
rates are low and people are looking for a mortgage
we would expect to lose mortgages. We would expect
to be one of the places where institutions come in
and buy mortgages from us and we would hope to be
best of our ability when interest rates are high that
we would be picking up mortgages. The factor that
you mentioned before may prove embarrassing, that is,
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1 one per cent move.

2 I would imagine from their point of view
3 there is a certain amount of documentation problem
4 and that when they change the rates their forms have
5 to be changed and it might be difficult but I am afraid
6 I am not very expert in that field. However, I think
7 you could say that it would be desirable that the
8 changes be more frequent and smaller if this was not
9 totally impractical from the documentation point of view.

10 COMMISSIONER GIBSON: Why are mortgage rates
11 generally so sticky because they do not change so often
12 -- is this documentation?

13 MR. BOYD: I think it is all these factors
14 together, the fact that you have a set rate, the fact
15 that they are broadly speaking illiquid and there is
16 yet no very satisfactory market and the fact that you
17 have documentation. They all contribute.

18 THE CHAIRMAN: And the mortgagor can pay
19 the mortgage off under certain conditions every five
20 years, isn't it? In any event he can pay it off.

21 MR. FORSYTH: Any loan can be paid off in
22 five years so that the investor does not have quite
23 the same opportunity of having the long-term.

24 THE CHAIRMAN: If he wants to pay it off
25 earlier there is very often provision for a bonus.

26 MR. BOYD: I think now it is three years he
27 has to pay a premium, if we are talking N.H.A., and
28 after that he can pay it off any year from three years
29 on with no premium.

30 MR. FORSYTH: It has three months' interest



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1 bonus but not a very severe penalty.

2 THE CHAIRMAN: You are speaking of the
3 N.H.A.?

4 MR. BOYD: Yes.

5 THE CHAIRMAN: That is more or less the
6 usual provision, as I recall it, in conventional
7 mortgages also, provision for repayment.

8 MR. FORSYTH: I think by and large also
9 in the conventional area most individual loans are made
10 for five years because the borrower will have an
11 opportunity in the long term of calling his loan.

12 THE CHAIRMAN: Yes, in the conventional
13 mortgages they always used to be just five-year mortgages,
14 sometimes with the right of repayment with bonus.

15 MR. FORSYTH: But this means that the
16 investor is not sure of having his money out for a
17 very long period on the mortgage.

18 THE CHAIRMAN: Well, the bonus was always
19 intended to cover that contingency.

20 MR. FORSYTH: Usually about three months'
21 interest when a change of interest rates in the interim
22 takes place. Perhaps he would have to re-invest his
23 money at one per cent less than the existing mortgage.

24 MR. BOYD: I think, though, for the broad
25 range of holders of single dwelling units with N.H.A.
26 mortgages it is a little too sophisticated to expect
27 changes in rates to be a big factor. I personally
28 would expect the most important factor would be paying
29 off of mortgages through perhaps the sale of houses
30 rather than the fact that the rate had changed and he



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1 paid off his N.H.A. rate and then took a conventional
2 rate.

3 THE CHAIRMAN: As to the mortgages on
4 existing houses why would that not be a satisfactory
5 field to enter? It all depends in the larger cities,
6 the properties where the centres of the cities are
7 generally of higher value than similar properties in
8 the outskirts and a better investment than new construction
9 which, to a large extent, takes place at a more distant
10 point from the centre and in depressed times those are
11 the places that sooner become vacant very often. There
12 are two aspects there from an investment point of view
13 of the new construction. It depends where the new
14 construction takes place and many other factors.

15 MR. STOTT: I think there are many factors
16 which become involved in dealing with older residences
17 as compared with new ones. Dealing with new ones you
18 have a valuation established on it by the Central
19 Mortgage and Housing Corporation which is generally
20 accepted and in dealing with older residences you would
21 have to set up some form of system to assess each older
22 property which makes it harder to deal in any large
23 field on that type of house.

24 COMMISSIONER BROWN: This is true in the
25 private field right now. The trust companies have their
26 own assessors.

27 THE CHAIRMAN: Yes, undoubtedly in the
28 older sections or certain sections, it depends, but
29 the mortgages are much more liquid.

30 MR. STOTT: I think it could be done but it



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1 would be difficult to trade in them talking as we are
2 of some of the N.H.A. mortgages.

3 MR. BOYD: Did your question refer to
4 putting the N.H.A. into this field or are you ---

5 THE CHAIRMAN: No, I do not care whether
6 they get into it or not but I do not know why you do
7 not look at it. I may be quite wrong in my suggestion
8 but I would think from an investment point of view it
9 may be a very good way of investing a certain portion
10 of the funds that would be very useful to the public
11 generally.

12 MR. BOYD: I put it this way, sir, that in
13 the fullness of time we should very much hope and
14 expect to be getting into that field.

15 THE CHAIRMAN: You don't want to do every-
16 thing at once?

17 MR. BOYD: We do not want to do everything
18 at once.

19 COMMISSIONER BROWN: You referred in passing
20 a moment ago to documentation. You make no reference
21 in your brief to the problem of different laws in the
22 various provinces with respect to mortgage foreclosures.
23 Have you any comments to make on this?

24 MR. STOTT: I think the only reason it was
25 not in the brief was purely because it would have
26 required a substantial amount of research and a
27 substantial amount of time which we did not have. We
28 were more interested in stressing other points which
29 seemed more pressing at the time but we do agree that
30 there are serious problems along this line.

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1 COMMISSIONER LEMAN: And this is more an
2 approved loan problem than yours, isn't it?

3 MR. STOTT: To a degree. There are problems
4 arising from documentation.

5 COMMISSIONER BROWN: Does this mean that
6 you will be confining the blocks you are buying to
7 certain provinces to the exclusion of others?

8 MR. STOTT: I think we would hope eventually
9 to be able to purchase in each province. There are
10 special complications in one province. As you know you
11 have to be an authorized lender as well as an approved
12 lender.

13 MR. BOYD: We are aware of some of these
14 problems and our counsel are looking into them. We
15 would expect and hope that we would be in a position to
16 do business in future, of course, in every province
17 but we are aware that certain provinces in the initial
18 stages lack complications and we are therefore in a
19 position to start off there while we are working on
20 the problems of the other provinces. We would hope to
21 be in a position to purchase mortgages that were originated
22 in any province.

23 COMMISSIONER MACKINTOSH: I notice you want
24 Central Mortgage and Housing Corporation to exercise
25 the power it has but has never used as far as I can
26 recall of becoming a lender of last resort to concerns
27 which are in the mortgage field and I think you say
28 possibly at a penal rate. There are possibilities here
29 of Central Mortgage and Housing carrying on almost
30 a central banking function here in the mortgage field

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1 from what you might call open market operations, putting
2 more money into the mortgage market and withdrawing it
3 at other times?

4 MR. BOYD: What we think here is that because
5 of the difficulty which I mentioned earlier of giving
6 our debt obligations a term that would coincide with
7 our assets we do have to concentrate, we expect to
8 have to concentrate our borrowing at the long end of
9 the market and the very short end of the market.
10 In periods this short borrowing might become substantial
11 -- we hope it would become substantial -- because this
12 would reflect the development of the company but in
13 periods ---

14 COMMISSIONER MACKINTOSH: I think it would
15 be cheap.

16 MR. BOYD: Well, that is right, but because
17 I do not think it would be economic or would have been
18 possible to form this company had the money market
19 not been in existence and I think one of the reasons
20 it has been possible to do this has been the form of
21 the money market in the last five years. Prior to that
22 it would have been extremely difficult to justify a
23 company which primarily borrowed at the long end and
24 in any case it would have posed the problem of maturities.
25 However, to go back to your initial question, with
26 substantial short borrowing under certain conditions
27 we could foresee difficulties in rolling this short
28 borrowing over for a relatively short period of time.
29 Perhaps in the fall of 1959, had this company been
30 formed, it may have been extremely difficult to turn

from what you might call open market operations, putting more money into the mortgage market and withdrawing it at other times?

MR. BOYD: What we think here is that because of the difficulty which I mentioned earlier of giving our debt obligations a term that would coincide with our assets we do have to concentrate, we expect to have to concentrate our borrowing at the long end of the market and the very short end of the market. In periods this short borrowing might become substantial -- we hope it would become substantial -- because this would reflect the development of the company but in periods ---

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1 over many millions of dollars at the short end of
2 the market, and basically you would have to face the
3 fact that to a great degree we were borrowing short
4 to lend longer. We therefore feel it would be practical
5 and prudent if Central Mortgage and Housing would agree
6 that under conditions corporations that are active in
7 the secondary market and are trying to do the things
8 we hope to be doing should have access to lender of
9 last resort facilities, and we further feel that this
10 access should be in such a manner that we were not
11 encouraged to apply for it. In other words, it should
12 hurt, just as normal lender of last resort facilities
13 hurt; but, that is the argument we feel there, sir.

14 COMMISSIONER MACKINTOSH: I think it was
15 originally contemplated that this power would be
16 used in connection with approved lenders as giving them
17 a measure of liquidity when they got into tightness in
18 the mortgage market, and in fact, originally there were
19 two elements in the housing legislation: One was the
20 old Dominion housing legislation, and the other was the
21 Central Mortgage Bank, which was provided for about
22 1938 but never went into operation. These two things
23 have now been brought into the one Act, and the original
24 intent of the Central Mortgage Bank was really to inject
25 some liquidity into great frozen blocks of mortgages
26 in the lending companies. It was to some degree a
27 salvage operation, there then being no secondary market
28 whatever in mortgages. Do you think this ought to be
29 done by Central Mortgage and Housing? Would it be
30 possible to make, say, a standby agreement with a



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possible to make, say, a standby agreement with



1 chartered bank that would serve the same purpose?

2 MR. BOYD: Well, it is very difficult to
3 make standby agreements with chartered banks.

4 COMMISSIONER MACKINTOSH: I understand
5 they have now stooped enough that they will accept
6 a fee for it.

7 MR. BOYD: Well, we turned this round in
8 our minds and had a few preliminary discussions which
9 got us nowhere, and it is certainly something we would
10 be in a position to pursue further, but I think the
11 right agency go give lender of last resort facilities
12 to companies active in the secondary mortgage market
13 would be Central Mortgage and Housing which, as you
14 point out, has a statutory power to make loans against
15 the assignment of mortgages and against an agreement
16 to assign mortgages, but it could perhaps be used in
17 another way too, to come back to the anti-cyclical
18 discussion we had some minutes ago, that if the
19 government felt the economy was accelerating at a
20 pace that they disapproved of and were putting a damper
21 on it through normal monetary and fiscal policies, and
22 if they felt, however, that they would not like at the
23 same time to disturb the long-term flow of money into
24 housing, if you had lender of last resort facilities,
25 such corporations as ours could perhaps borrow at
26 that time from Central Mortgage and Housing specifically
27 to keep money flowing into the housing field to
28 supplement perhaps Central Mortgage and Housing's
29 own direct lending. So, it could be used in either
30 way, and I think perhaps would be an additional implement



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1 for the authorities to control the economy.

2 COMMISSIONER MACKINTOSH: It does become
3 a sort of anti-anti-cyclical policy.

4 MR. BOYD: Well, under certain assumptions
5 it might be desirable.

6 COMMISSIONER MACKINTOSH: What you are
7 asking is a certain insulation of the housing field?

8 MR. BOYD: That insulation in one cycle
9 might be deemed advisable and in another cycle might
10 be deemed highly inadvisable depending on the over-all
11 factors.

12 COMMISSIONER GIBSON: These are two quite
13 different functions.

14 MR. BOYD: Quite different.

15 COMMISSIONER GIBSON: The lender of last
16 resort concept is generally a short-term lending
17 operation.

18 MR. BOYD: A week, perhaps.

19 COMMISSIONER GIBSON: Just to tide over;
20 whereas the other thing you are speaking of is medium-
21 term.

22 MR. BOYD: Not necessarily so. It would
23 work this way, that if the government felt the private
24 enterprise could pull its weight but recognized that
25 for a short period of time during a particularly tight
26 money period no corporation such as ours could be
27 expected to put money into mortgages without government
28 help, but at the same time the government could avoid
29 lending for the long-term itself. All that would
30 happen would be that you would given instructions to



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1 re-finance this in the market as soon as the market
2 conditions returned to normal, and the loan would come
3 to an end, and it may be not medium-term, but longer
4 than a week -- it may be a three or four months' loan.

5 COMMISSIONER GIBSON: But you are advocating
6 not so much this point.

7 MR. BOYD: No.

8 COMMISSIONER GIBSON: You are saying this
9 is a possibility.

10 MR. BOYD: Yes.

11 COMMISSIONER GIBSON: But you are advocating
12 Central Mortgage and Housing should act as lender of
13 last resort in the normal sense?

14 MR. BOYD: I am advocating and suggesting
15 that formations of corporations such as ours would be
16 encouraged by this action and I would also very much
17 hope it was never made use of, because the conditions
18 under which it would have to be made use of will not
19 appear. But, nevertheless, they are in the background
20 and would give one a feeling of prudence to know that
21 in a tight jam for a very short period, perhaps at
22 a penal rate, there was money -- and perhaps admonitions
23 at the same time -- that you could receive from the
24 government.

25 COMMISSIONER BROWN: Isn't the main purpose
26 of the lender of last resort that it opens up other
27 avenues of getting your funds? In other words, if
28 there was a lender of last resort, the banks, as an
29 example, would be more likely to advance funds to you?
30 That is the point of a lender of last resort, isn't it?

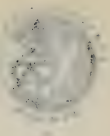




1 MR. BOYD: I think the buyers of our
2 short-term debt would feel happier. We would hope they
3 would feel happy principally because we were a properly
4 run company and that we were not doing wild things
5 because we had lender of last resort facilities. I
6 think the lender of last resort facilities may have
7 some other restrictions imposed along with them -- maybe
8 that you are not allowed to make any additional loans
9 or buy any additional mortgages for the period you are
10 into Central Mortgage and Housing as a lender of last
11 resort. I think there could be a number of reasonable
12 restrictions put upon the company under those
13 circumstances. There is no doubt the encouragement
14 that investment dealers had from the arrangements made
15 with the Bank of Canada gave a tremendous impetus to
16 the money market in Canada.

17 COMMISSIONER MACKINTOSH: I think the
18 discussion has made clear there are two things here
19 both of which have central bank analogies. The provision
20 for loans of last resort is the analogy of the bank rate,
21 and for injecting additional capital on a longer-term
22 basis into the market the analogy is open market operations.
23 So far Central Mortgage and Housing has only come into
24 the market as a seller. It might conceivably sometime
25 in the future come into the market as a buyer to complete
26 the open market analogy and put more money in the field.
27 Later on -- and I think it is in paragraph 28, do I
28 detect an implicit recommendation that the 6 per cent
29 ceiling be removed from chartered banks?

30 MR. BOYD: Well, it wasn't written with that



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So far Central Mortgage and Housing has only come into
the market as a seller. It might conceivably sometime
in the future come into the market as a buyer to complete
the open market analogy and put more money in the field.
Later on -- and I think it is in paragraph 26, do I
detect an implicit recommendation that the 6 per cent
selling be removed from chartered banks?

FOYD: Well, it wasn't written with



1 in mind, sir. The argument here was simply that at
2 present the banks are largely out of the mortgage field
3 because of the 6 per cent limitation upon them, but various
4 things could happen from there on: Either new companies
5 or maybe a combination of things -- either new companies
6 are formed, as we have attempted to do, or Central
7 Mortgage and Housing just continues filling that -- or,
8 the banks would be asked again to come to the help, whether
9 or not they wanted to.

10 COMMISSIONER LEMAN: Don't you have an
11 opinion as to whether the 6 per cent ceiling on the
12 banks should be lifted or not?

13 MR. BOYD: I am afraid that is a question
14 for the bankers, sir. I don't have an opinion. I
15 think it is a very broad subject about which I am very
16 ill informed.

17 COMMISSIONER MACKINTOSH: I think the bankers
18 as a group won't be allowed to decide it.

19 MR. BOYD: I am afraid I could not contribute
20 to any debate on that subject satisfactorily.

21 COMMISSIONER LEMAN: Let us discuss it from
22 your point of view in this new enterprise. The banks
23 were very heavy investors for a while in N.H.A. mortgages,
24 were they not?

25 MR. BOYD: That is right.

26 COMMISSIONER LEMAN: For a limited period.
27 Then, because of the rise in interest rates on N.H.A.
28 mortgages the banks had to come out. Now, if you want
29 private enterprise to be a very active factor in the
30 mortgage market for housing, the effect of a very large

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1 investor like the banks would come in or come out
2 in heavy amounts and would provide for some shocks
3 in the market you are thinking about, wouldn't it?

4 MR. BOYD: It might do, but I would hope
5 there would be room for both. Our argument was a little
6 different, that you may have to ask the banks to come
7 in whether they want to or not, and perhaps this was
8 the case in 1954, but we admittedly have taken the
9 situation as it is at present and tried to do something
10 about it.

11 COMMISSIONER LEMAN: Well, don't you think
12 if one of the large investors in a market such as this
13 is an in-and-outer that it would naturally jar your
14 market.

15 MR. BOYD: I think that is right, sir, yes.

16 COMMISSIONER MACKINTOSH: I take it you
17 would agree that it would be better if the banks were
18 continuously in this market whether that is made possible
19 because mortgage interests are low enough to come within
20 their operation, or whether they are given more leeway
21 by a higher rate -- just from the point of view of the
22 mortgage market? If institutions come in and finance
23 mortgages for three or four years, it is undesirable
24 that they should disappear from the market in the fifth
25 year.

26 MR. BOYD: I think that is true, and certainly
27 we would prefer to see -- I agree with Mr. Leman: We
28 would prefer to see a steady flow from one set of
29 institutions, but what we would hope would be the case
30 is that the banks would be in a position to originate

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would prefer to see a steady flow and not of
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is that the banks would be in a position to continue



1 mortgages and they might like then to sell them to us;
2 because of their large system of branches they would
3 like to keep the servicing, which has perhaps some other
4 aspects for the banks such as banking facilities for
5 the borrowers and other things like that, and it may
6 be very constructive.

7 COMMISSIONER MACKINTOSH: There is a
8 paragraph somewhere urging desirability of the right
9 to make forward commitments for mortgages -- it is
10 paragraph 31 -- for a standby fee, and this was not quite
11 clear. You say it should be permissible for such
12 corporations as Canborough to charge a reasonable
13 standby fee. I would have thought this was the
14 institution which was going to originate the mortgage.
15 I am not sure that I understand what you are speaking
16 of. What I took from it was that you were going to
17 assure a builder, for example, that you would take of
18 his mortgage requirements for this enterprise.

19 MR. BOYD: What is in our minds here is that
20 if you have a builder who wishes to develop a whole
21 housing project over a number of years it is very difficult
22 for him -- and we have talked to a number of them -- if
23 he has no assurance that if he starts the project this
24 year that in the following year perhaps he will have
25 no source of funds available to him, so that the project
26 looks rather stupid if it is not a continuing one and
27 goes in jerks and starts. Naturally, we do not intend
28 to originate ourselves or to service ourselves, but when
29 it comes to a supply of funds for forward commitments
30 it would perhaps be natural for the builder, if it was



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of their large number of properties they would

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builder, if it was



1 a big project, to talk directly to us about commitments
2 in six months or twelve months' time, because the
3 origination of servicing would be looked after by one
4 of the big companies, but if you do give a commitment
5 I feel it is a service which should be paid for, which
6 is not possible at the moment under the National
7 Housing Act.

8 COMMISSIONER MACKINTOSH: In effect, the
9 service you would give him would be to guarantee the
10 funds when he ---

11 MR. BOYD: You would give him two services:
12 You would give him this guarantee, and give him the
13 funds itself. I think you can say it is a service
14 actually lending the money, and it is a service saying,
15 "We will lend that money some time in the future".

16 COMMISSIONER MACKINTOSH: I am not arguing
17 about the fee. I want to understand the operation.
18 When he ultimately got his mortgage placed and his
19 money, I take it this would be with one of the approved
20 lenders. Now, how are you in a position to guarantee
21 that next year the approved lenders will go forward
22 with this?

23 MR. BOYD: If the approved lender was
24 originating purely as a service and is being paid to
25 originate, I would not feel there would be any doubt
26 he would go forward with it.

27 COMMISSIONER MACKINTOSH: I see.

28 MR. BOYD: He would be assured we would
29 be putting up the money.

30 COMMISSIONER MACKINTOSH: You would assure



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MR. BOYD: He would be assured we would



1 the lender you would take the mortgage from him and
2 on those terms he would agree then to originate?

3 MR. BOYD: Yes.

4 COMMISSIONER MACKINTOSH: I see. Was
5 there another reference somewhere to what was, in effect,
6 a mortgage broker? I know little about this, but I
7 understand in the United States there is a separate
8 occupation by which you arrange mortgages and place
9 them with an approved lender and collect a kind of
10 broker's fee. Is that what you were referring to?

11 MR. BOYD: Only if we were the approved
12 lender involved, I think.

13 COMMISSIONER MACKINTOSH: I see.

14 MR. BOYD: In other words, we normally would
15 be dependent on other approved lenders to originate and
16 service.

17 MR. STOTT: I think that such mortgage
18 brokers exist to a degree here now.

19 COMMISSIONER MACKINTOSH: I think they
20 are developing a bit, but my understanding is that
21 more or less that is the standard arrangement in the
22 United States.

23 MR. STOTT: I think that is the logical
24 outgrowth of it, yes.

25 COMMISSIONER MACKINTOSH: What role do or
26 can investment dealers play in this end of the capital
27 market?

28 MR. STOTT: Investment dealers are probably
29 the only existing institutions -- if you can call them
30 institutions -- that act at this stage purely in the



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1 secondary market and I foresee them continuing to act
2 in that role, supplying mortgages and the purchase of
3 them from Central Mortgage and Housing or other
4 approved lenders. They might indirectly play another
5 role and that is in financing projects at certain stages
6 and managing that type of financing for them with N.H.A.
7 mortgages as a sideline.

8 COMMISSIONER MACKINTOSH: I think I have
9 no more. One of your recommendations is standardization
10 of N.H.A. mortgages at a hundred per cent insurance
11 which seems a reasonable proposition as far as I can
12 see. I do not think I have any more questions, Mr.
13 Chairman.

14 COMMISSIONER LEMAN: If there should ever
15 be a moratorium on mortgages should there be one on
16 your securities outstanding too?

17 MR. BOYD: Do we have to answer that?

18 COMMISSIONER LEMAN: Well, you could make
19 a recommendation on it.

20 MR. FORSYTH: We would hope there would not
21 be a moratorium on our loans, Mr. Leman.

22 COMMISSIONER BROWN: Does the insurance
23 cover this?

24 COMMISSIONER LEMAN: Is that foreseen in
25 the legislation covering insurance?

26 COMMISSIONER BROWN: If there was a provincial
27 moratorium does the insurance cover it?

28 MR. FORSYTH: The legislation covers
29 default. Now, I do not think it was quite contemplated
30 that there might be a moratorium and conceivably there



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COMMISSIONER BROWN: If there was a provincial

moratorium does the insurance cover it?

MR. FORSYTH: The legislation covers

that there might be a moratorium and consequently



1 could be quite a bit of discussion in interpreting the
2 N.H.A. Act.

3 MR. STOTT: My impression is that in order
4 to start foreclosure proceedings you must first of all
5 obtain clear title.

6 MR. BOYD: I think that is one of those
7 hazards of doing business that one has to accept.
8 Crossing the road every day you can get killed by
9 a car but it does not stop you crossing the road and
10 I think more seriously in the event of a situation which
11 would cause a moratorium the government would most
12 certainly be most unwise not to come to the aid of anybody
13 who was hurt in this way because it could not possibly
14 help the situation and you would have a financial
15 panic on top of everything else which would be
16 ridiculous and so if this should happen I would expect
17 very substantial help from any government under
18 conditions that caused a moratorium.

19 COMMISSIONER BROWN: Well, moratoriums
20 are sometimes provincial.

21 MR. BOYD: Well, what causes a moratorium?
22 Surely a depression causes a moratorium.

23 COMMISSIONER BROWN: This might be in
24 specific regions.

25 MR. BOYD: Well, in that case you would
26 do your best to persuade the provincial government
27 to help out but I do not think you would encounter
28 the situation.

29 THE CHAIRMAN: You have to face the vagaries
30 of government



1 MR. BOYD: This is one of those risks without
2 which nothing will be accomplished, sir.

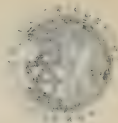
3 COMMISSIONER LEMAN: The only reason I
4 really asked the question was that I did not know
5 in such a case whether it was foreseen in the insurance
6 legislation.

7 MR. FORSYTH: Speaking offhand without
8 detailed knowledge of it I do not think it was quite
9 foreseen because you do have to get possession in order
10 to claim your insurance. It would be conceivably a
11 little difficult under a moratorium.

12 THE CHAIRMAN: Anything further?

13 The Commission will adjourn to July 3rd
14 at 9.15 A.M. Daylight Saving Time in the Courtroom
15 of the Board of Transport Commissioners in Ottawa.
16 --- Adjournment.

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THE CHAIRMAN: ANY OTHER QUESTIONS?

The Commission will adjourn to July 26

at 9.15 A.M. Daylight Saving Time in the Courtroom

of the Board of Trade, Chicago, Illinois.

— ADJOURN —

Royal Commission on Banking and Finance

Hearings
held at
Halifax

Vol.	Date.
20 A	June 12 1962
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THE ...

INTRODUCTION

PROVINCIAL AND MUNICIPAL FINANCING

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PREFACE

A Summary of the Brief Submitted
by the Government of Nova Scotia

The Government of Nova Scotia has financial requirements and is concerned with the increasing attention that must be given by government to economic and social problems. Our fundamental financial problem is where to find sources of adequate revenue.

We are participants in the national economic processes and wish to be as well equipped as possible to provide a reasonable standard of services for our people.

This government is concerned with the functioning of the capital markets because we have a part to play in adjusting the behaviour of the economy and we are anxious that there be the utmost co-ordination of federal, provincial and municipal governments towards goals of national economic growth and stability.

Provincial and Municipal Financing

We have endeavoured to discharge the responsibilities of a provincial government and our responsibilities to the municipal units in a prudent manner. We try to provide the level of service demanded by an expanding population and a growing economy.

To do this, we must spend, we must tax, and we must borrow. Our municipal units are in the same



Summary of the Brief Submitted
to the Government of Nova Scotia

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1 position. It has been possible up to this time to obtain
2 what it has been prudent for us to borrow but the cost
3 of borrowing is high at current rates.

4 We Recommend:

5 1. More co-ordination between governments, with the
6 objective of stimulating long run economic growth
7 through provision of federal funds to carry out counter
8 recession policies during down swings in the business
9 cycle.

10 2. That ways be explored to improve the timing and
11 size of provincial debenture issues coming on the capital
12 market.

13 3. That a federal government loan fund be created for
14 municipalities to use for constructing facilities of
15 some national importance (schools, hospitals) and that
16 the fund be regulated for maximum use as a counter
17 recession measure.

18 Industrial and Economic

19 The capital needs of the private sector of the
20 Nova Scotia economy, at least for the past 30 years,
21 have not been fully met by traditional capital insti-
22 tutions. Loans, to small business enterprises, for
23 tourist accommodation, for agriculture, to fisherman,
24 and in recent years for larger industrial enterprises,
25 had to be made available by the Government of Nova Scotia,
26 to maintain an economic growth rate somewhat below the
27 national average.

28 There will be future growth in these needs in
29 the immediate years ahead, and if extraordinary
30 efforts are made to bring our growth rate up to the



1 national average, these credit needs will be very
2 large indeed.

3 We anticipate that there will also be future
4 periods of credit restriction nationally, and we fully
5 expect that, as in the past, unless changes are made,
6 these restrictions will bear heavily on business
7 activity in this region.

8 We Recommend:

9 1. That a more flexible form of credit
10 control be devised. The varying credit needs of
11 different areas of Canada should be recognized, so
12 that adverse effect from national restrictions of
13 credit will not further depress any area not suffering
14 from over-expansion of credit.

15 2. That more precise and reliable statistical
16 data be made available, so that a government attempting
17 to improve the planning and functioning of its
18 economy will have available to it the most factual
19 and recent data.

20 3. That the present federal Farm Improvement
21 Loan maximum of \$7,500 be raised to \$10,000. That some
22 exploration of the possibility of establishing a
23 single "line of credit" for commercial farmers be
24 attempted, and the possibility of pooling or merging
25 the resources of the Federal Farm Credit Corporation
26 and the Nova Scotia Land Settlement Board be examined.

27 4. If a substantial development is to take
28 place in large-scale industry in the Atlantic region,
29 the Government of Nova Scotia may find itself in the
30 position of having to borrow large sums of money for

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We anticipate that there will also be future periods of credit restriction nationally, and we fully expect that, as in the past, unless changes are made, these restrictions will bear heavily on business activity in this region.

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2. That more precise and reliable statistical data be made available, so that a Government attempting to improve the planning and functioning of its economy will have available to it the most factual and recent data.

3. That the present Federal Farm Improvement Loan maximum of \$7,500 be raised to \$10,000. That some exploration of the possibility of establishing a single "line of credit" for commercial farmers be attempted, and the possibility of pooling or merging the resources of the Federal Farm Credit Corporation and the Nova Scotia Land Settlement Board be examined.

4. If a substantial development is to take place in large-scale industry in the Atlantic region, the Government of Nova Scotia may wish to take the position of having to borrow large sums of money for



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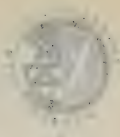
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1 industrial capital. To avoid any risk of impairing
2 the credit of the Province.

3 We Recommend:

4 That the Federal Government contribute
5 large blocks of industrial loan capital at low interest
6 rates and for long term to any area where the need
7 for this type of capital can be demonstrated.
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COMMITTEE ON THE INDUSTRIAL DEVELOPMENT OF THE UNITED STATES

REPORT OF THE COMMITTEE

U. S. GOVERNMENT PRINTING OFFICE

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Submission to The Royal Commission
on Banking and Finance

I INTRODUCTION

1. Nova Scotia has a long history of association with banking and finance and indeed many of the best features and strong points of the present Canadian banking system had their origin in the Atlantic region.

In 1801 and again in 1811, the legislative assembly of this province refused to grant a monopoly to the promoters of a banking company. A private partnership was formed and the Halifax Banking Company offered the business community a banking service without monopoly and without a charter. Later, in 1832, a petition was presented to the legislature of this province by another banking group and the Bank of Nova Scotia was incorporated. There were many other Bank incorporations in the Atlantic region in subsequent years that through sale, merger and failure led to the national banking system that we have in Canada today.

2. This long history of association and development accentuates the importance attached by the Government of Nova Scotia to the matters that the Commission has been asked to examine and we feel that the future welfare of Canada and the Atlantic region will benefit greatly from your findings.

3. With the rise in importance of Canada in international affairs, the present rapid means of travel and communication and our concern over

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Nova Scotia has a long history of association with banking and finance and indeed many of the best features and strong points of the present Canadian banking system had their origin in the Atlantic

In 1801 and again in 1811, the legislative assembly of this province refused to grant a monopoly to the promoters of a banking company. A private partnership was formed and the Halifax Banking Company offered the business community a banking service without monopoly and without a charter. Later, in 1832, a petition was presented to the legislature of this province by another banking group and the Bank of Nova Scotia was incorporated. There were many other Bank incorporations in the Atlantic region in subsequent years that through sale, merger and failure led to the national banking system that we have in Canada today.

2. This long history of association and development accentuates the importance attached by the Government of Nova Scotia to the matters that the Commission has been asked to examine and we feel that the future welfare of Canada and the Atlantic region will benefit greatly from your findings.

3. With the rise in importance of Canada in international affairs, the present rapid means of travel and communication and our concern over



1 economic and financial relations with other nations,
2 it appears very timely to have at this time in our
3 financial history an investigation of the broad and
4 comprehensive scope suggested in the terms of
5 reference of this Commission.

6 4. International problems of all kinds, as
7 well as domestic, economic and social problems, will
8 for a long time to come require increasing attention
9 from governments and influence their activities to
10 an increasing degree. Any solutions found will
11 require that both private and public financial
12 policies must meet as fully as possible the needs
13 of the times.

14 5. The Government of Nova Scotia is a participant
15 in the national economic processes. The Government
16 is also a borrower and has an interest in and
17 co-ordinating role to play with other borrowers in
18 the province. We are most anxious to be as well
19 equipped as possible to provide maximum assistance
20 to our people to enable them to reach goals of
21 economic growth, stability and social progress.

22 6. To help achieve the desired goals,
23 government activities in recent years have expanded
24 into a variety of activities far removed from the
25 traditional functions of government. The legislative
26 powers of government, monetary management by govern-
27 ment and fiscal and financial operations of government
28 are all directed to adjusting the behaviour of the
29 economy to achieve desired social ends.

30 7. It is clear that the more important powers

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4. International problems of all kinds, as well as domestic, economic and social problems, will for a long time to come require increasing attention from governments and influence their activities to an increasing degree. Any solutions found will require that both private and public financial policies must meet as fully as possible the needs of the times.

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6. To help achieve the desired goals, government activities in recent years have expanded into a variety of activities far removed from the traditional functions of government. The legislative powers of government, monetary management by government and fiscal and financial operations of government are all directed to adjusting the behaviour of the economy to achieve desired social ends.

7. It is clear that the more important powers



Nethercut & Young

Toronto, Ontario

A1856

1 in the area of finance belong to the federal
2 government. It is true that the problems of
3 maintaining stability and growth are also to an
4 increasing extent problems of the provincial and
5 municipal governments. There must be co-ordination
6 of federal and provincial financial and fiscal
7 policies if the maximum progress toward the larger
8 objectives of national economic growth and stability
9 is to be achieved.

10 8. In this perspective, this submission will
11 deal with a number of topics on which we feel competent
12 to comment.



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deal with a number of topics on which we feel competent
to comment.



II PROVINCIAL AND MUNICIPAL
FINANCING

9. The Government of Nova Scotia operates on a balanced budget, current financial requirements have been met from current revenues, and this means that any borrowings are for capital account. The main borrowings are from chartered banks, from the sale of treasury bills and from the sale of debentures on the market.

10. The usual procedure followed is to run into bank overdraft position, then to reduce these overdrafts by sale of treasury bills at a lower interest rate, and finally to fund these expenditures by long term debenture borrowing on the capital market. Nova Scotia treasury bills have been sold by direct negotiation with the purchaser; amounts have varied as demands for short term money dictated.

11. Financial policies, of course, determine the behaviour of the Province as a borrower but more specifically, judgment of the extent of the Government's borrowing capacity must enter the decision making. There are limitations to the long term bond market for any particular borrower even though he may be willing to pay higher rates of interest.

12. Also a factor in borrowing in the long term Canadian bond market is the monetary and financial policy of the Federal Government. When the Federal Government is financing deficits with no increase in the money supply, then the provinces have more difficulty obtaining funds and they have to



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term Canadian bond market is the monetary and financial policy of the Federal Government. When

the Federal Government is financing deficits with no increase in the money supply, then the provinces

have more difficulty obtaining funds and may have to



1 pay more for them.

2 13. If the Central Mortgage and Housing
3 Corporation interest rate is high in relation to
4 yields on long term bonds, the provinces will have
5 to compete with C.M.H.C. for funds. If the Bank of
6 Canada monetary policy creates high interest rates
7 and credit is rationed, the provinces are adversely
8 affected. Conversely, if the Federal Government
9 loans to provinces for specific projects or equalizes
10 revenue potential, then those provinces have less
11 need to exploit the capital market.

12 14. Borrowing of other provincial governments
13 has a marked effect on the ability of Nova Scotia
14 to exploit the capital market. Other provincial
15 bond issues are watched carefully and yields from
16 Nova Scotia bonds do not deviate too much from the yields
17 of recent issues of other provinces having regard to
18 the relative credit standings and the size of the
19 issues. The large central provinces at times
20 dominate the bond market and the timing of Nova Scotia
21 issues must be adjusted to accommodate the larger
22 issues of other provinces.

23 15. Investor psychology seems to be important
24 in provincial finance. If provincial net debt
25 increases to the point where it compares unfavourably
26 with increases in the economy, investor psychology
27 is adversely affected. If the price of issues is so
28 high that they remain unsold for a period, there are
29 further adverse effects and if, in addition, the
30 issues are poorly timed, the adverse effect on investor



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14. Borrowing of other provincial governments has a marked effect on the ability of Nova Scotia to exploit the capital market. Other provincial bond issues are watched carefully and yields from Nova Scotia bonds do not deviate too much from the yields of recent issues of other provinces having regard to the relative credit standing and the size of the issues. The large central provinces at times dominate the bond market and the timing of Nova Scotia issues must be adjusted to accommodate the larger issues of other provinces.

15. Investor psychology seems to be important in provincial finances. If provincial net debt increases to the point where it compares unfavourably with increases in the economy, investor psychology is adversely affected. If the price of issues is so high that they remain unsold for a period, there are further adverse effects and if, in addition, the

badly timed, the adverse effect on investor



1 psychology can be cumulative.

2 16. It is believed that Insurance Companies,
3 Trust Companies, and Pension Funds, as well as the
4 general investing public, make up the bulk of the
5 market for provincial securities. Banks are understood
6 to be substantial buyers of our short and medium
7 term maturities.

8 17. No serious difficulties have been encountered
9 in marketing Nova Scotia debentures providing we are
10 willint to pay current interest rates. It is felt
11 that the sale of provincial debentures can be improved
12 if investors have more personal knowledge of the
13 security in which they are investing.

14 18. Historically, the Government of Nova Scotia
15 has relied chiefly on the Canadian long term bond
16 market, to a lesser extent on the mid-term bond
17 market and the specialized market provided by the
18 chartered banks (Appendix I).

19 19. Traditionally, Government of Nova Scotia
20 debentures are long term. On these issues, a 3 per
21 cent Sinking Fund is provided which will, with a
22 continuance of today's rate of return on investments,
23 accumulate funds sufficient to retire these issues
24 in full at maturity. In the use of short term debt
25 from time to time, a careful watch is kept so that
26 short term maturities without substantial sinking
27 fund are evenly spaced so as not to impose an undue
28 burden in any fiscal period.

29 20. The same care is used in assuring that
30 provincial treasury bills are kept within reasonable



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...

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from time to time a reserve fund is used to pay

...

fund are evenly spaced so as not to impose an undue

burden in any fiscal period.

...

...



1 bounds as to provision for retirement without undue
2 burden in any one year.

3 21. The general maturity structure of the
4 provincial debt is shown in Appendix I. Total
5 debenture issues in the past 10 years (1953-62
6 inclusive) amount to \$236,100,000. Those with a term
7 of over 10 years total \$184,600,000 -- 5 to 10 years
8 total \$13,900,000 -- 5 years or less \$37,600,000.

9 22. Total Debt Outstanding at March 31, 1962
10 is shown in Appendix II as \$330,870,000. Of this total,
11 that portion with a term over 10 years is 47.7 per
12 cent, of which 41 per cent is Canada pay and 6.6 per
13 cent U.S. pay; with a term of 5 to 10 years, 27 per
14 cent, with 18.8 per cent Canada pay and 4.5 per cent
15 U.S. pay; with a term under 5 years is 25.1 per cent
16 of the total, with 19.3 per cent Canada pay and
17 2.1 per cent U.S. pay.

18 23. The U.S.A. market has been used to a limited
19 extent when the money supply in Canada appeared to
20 be limited and interest rates substantially favoured
21 U.S. borrowing. Other factors such as exchange,
22 refunding and redemption risks must also be assumed
23 in foreign borrowing and the levels of interest rates
24 will greatly influence any decision to go to the U.S.
25 market.

26 24. Nova Scotia has used both the tender system
27 and negotiation with a syndicate in disposing of
28 provincial bonds. The Province does not have a
29 fiscal agent. Most of the debenture issues in the
30 past year were negotiated with a major syndicate,



provincial debt is shown in Appendix I. Total

(inclusive) amount to \$335,100,000. Those with a term of over 10 years total \$184,600,000 -- 5 to 10 years total \$13,900,000 -- 5 years or less \$21,000,000.

is shown in Appendix II as \$830,750,000. Of this total that portion with a term over 10 years is 41 per cent, of which 41 per cent is Canada pay and 5 per cent U.S. pay; with a term of 5 to 10 years, 37 per cent, with 19.3 per cent Canada pay and 17.7 per cent U.S. pay; with a term under 5 years is 22.1 per cent of the total, with 19.3 per cent Canada pay and 2.8 per cent U.S. pay.

23. The U.S.A. market has been used to a limited extent when the money supply in Canada appeared to be limited and interest rates substantially favored U.S. borrowing. Other factors such as exchange, regarding and redemption risks must also be assumed in foreign borrowing and the levels of interest rates will greatly influence any decision to do so for the U.S. market.

24. Nova Scotia has used both the London system and negotiation with a syndicate in disposing of provincial bonds. The Province has not yet had a

Note of the department is in the



1 composed of 26 investment houses and five banks.

2 25. We consider that this type of marketing
3 under current conditions has certain advantages over
4 the tendering system: (1) We get very broad sales
5 coverage which we believe could not be obtained in
6 any other way. (2) We get orderly marketing of the
7 issues. (3) The price of the issues is set for the
8 National Market and all are conscious that the
9 investor must have a fair deal if we are to have
10 marketing success on our next and future issues. We
11 are, however, not committed to a negotiated underwriting
12 agreement and we recognize that there may be times
13 when a tender call is advantageous and we are always
14 prepared to give consideration to competitive bidding.
15 We are also prepared to enter into a private placement
16 agreement should it be to our advantage to do so.

17 26. Treasury bills are sold direct to the lender
18 and investigation has shown that many lenders of this
19 type of money prefer to deal direct with the Province.

20 27. Nova Scotia has not found it necessary or
21 desirable to issue Demand Paper, Parity Bonds or
22 Provincial Savings Bonds. A decision to use this
23 method of borrowing would require arrangements with
24 the chartered banks to keep available a sufficiently
25 large line of credit to meet any possible demand for
26 redemption. It is questionable how large the line of
27 credit would have to be and its availability has not
28 been explored with the banks.

29 28. The Government of Nova Scotia must be
30 concerned with the capital expenditures of municipal



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been explored with the banks.

28. The Government of Nova Scotia must be

concerned with the capital expenditures of municipal



1 units because a substantial portion of provincial
2 capital expenditure is made by the municipalities and
3 a part of such facilities as schools, hospitals,
4 streets and sewers is financed by local governments.
5 Borrowing for capital expenditures by municipal
6 units of Nova Scotia requires in every case the
7 approval of the Minister of Municipal Affairs.

8 29. In assessing the capacity of a municipal
9 unit to borrow, the following factors are given first
10 consideration:

- 11 (a) total debenture debt of the unit and
12 its relation to assessment and to
13 population;
- 14 (b) general economic condition of the area;
- 15 (c) ability of the ratepayers to service
16 debt charges;
- 17 (d) ability of the unit to sell the debentures.

18 The repayment period of any municipal borrowing may
19 not exceed 40 years under the present Municipal
20 Affairs Act and, in practice, borrowings for longer
21 than twenty years are not approved except in very
22 exceptional circumstances. For assets of relatively
23 short life, correspondingly shorter repayment periods
24 are required.

25 30. The Province has created a Municipal Loan
26 Fund with an authorized total of 6.5 million dollars.
27 This Fund is used to aid municipal units where the
28 need is deemed urgent and the sale of debentures
29 difficult.

30 31. It has proved difficult for municipalities



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- (a) total debenture debt of the unit and its relation to assessment and to
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The repayment period of any municipal borrowing may not exceed 40 years under the present Municipal Affairs Act and, in practice, borrowings for longer than twenty years are not approved except in very exceptional circumstances. For assets of relatively short life, correspondingly shorter repayment periods are required.

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1 to sell debentures where the term of repayment extends
2 beyond twenty years. On projects such as water and
3 sewer, where a repayment term longer than twenty
4 years seems desirable, the Loan Fund can take the
5 portion of the issue above the 20-year maturity.

6 32. The use of this Fund is not encouraged
7 for school purposes. The demand for school financing
8 is large and judged to be beyond the capacity of any
9 Municipal Loan Fund that the Province could reasonably
10 provide.

11 33. The Province maintains a Hospital Loan Fund
12 administered by the Department of Public Health
13 and loans of up to half of total requirements may be
14 made to a municipal unit for hospital construction.
15 Construction grants are also available for hospital
16 facilities and these are administered by the Department
17 of Public Health. The first repayment on a loan shall
18 be within one year from the date of the loan; but
19 if the municipality has borrowed additional money
20 for the same purpose, then the Government may specify
21 a date not more than eleven years from the date of
22 the loan or the last advance, when repayment is to
23 commence. This means in effect that if the
24 municipality has issued other debentures and these
25 are repayable over a period of twenty years, then
26 the Government may provide that the loan from the
27 Fund be repayable over a period of twenty years
28 beginning with the eleventh year and extending to
29 the thirtieth year.

30 34. The Minister of Education, under authority



sewer, where a repayment term longer than twenty years seems desirable, the loan fund can take the portion of the issue above the 30-year maturity.

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beginning with the eleventh year and extending to



1 of Section 94 of the Education Act, is authorized
2 to provide assistance to each municipal unit toward
3 the capital cost of school buildings and equipment,
4 a grant in the form of a proportion of the annual
5 debt charges on sums borrowed for school purposes.
6 These proportions vary inversely with the fiscal
7 ability of the municipal units and range from 0 to
8 86 per cent.

9 35. The Minister is also authorized under
10 Section 94 to pay the provincial proportion, which
11 is calculated each year, of approved capital costs
12 paid out of funds other than funds borrowed. Usually
13 these costs are paid out of revenue but sometimes
14 the municipal share of such costs is paid out of
15 proceeds of an insurance policy or from donations.

16 36. Control is exercised over the amount of
17 the grant by establishing schedules of costs for school
18 buildings, broken down into classroom units and other
19 instructional units such as libraries, laboratories,
20 auditorium-gymnasium and the like. If the actual
21 cost of the school building exceeds the cost
22 schedules in the regulations under the Education Act,
23 the Province pays the proportion of the debt charges
24 only for the schedule costs, or for the actual cost
25 of the building if the building is erected for
26 less than the schedule costs. The presence of these
27 cost schedules acts to some degree as a check on
28 excessive spending for school buildings.

29 37. The legislation also provides that the
30 Minister may, if he so wishes, pay one-half of the



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37. The legislation also provides that the Minister may, if he so wishes, pay one-half of the



1 provincial proportion in the form of a direct grant
2 and the other half of the provincial assistance is paid
3 in the form of a proportion of the annual debt
4 charges. This provision in the Act was used for a
5 short period in 1961 but was discontinued. The
6 provision in the Act, however, still remains and can
7 be used at any time when sufficient funds are
8 available.

9 38. Normally, the municipal unit must borrow
10 the complete amount necessary for the building and
11 the provincial payment of a proportion of the annual
12 debt charges does not reduce the amount that the
13 municipality has to borrow. The payment of a share
14 of the debt charges each year, however, is in effect
15 a guarantee of the repayment of that proportion of the
16 debt charges and the municipalities are thus enabled
17 to borrow money more readily than if provincial
18 assistance were not provided.

19 39. The Department of Municipal Affairs assists
20 and co-operates with the municipal units in the selling
21 of municipal debentures. This Department recommends
22 the terms of repayment and the rate of interest.
23 It co-ordinates the dates on which tenders may close,
24 by reserving dates for this purpose; the object of
25 this is, of course, to ensure that two or three
26 municipal units are not calling for tenders at the
27 same time. The Department maintains a list of those
28 to whom invitations to tender are distributed and
29 prepares and circulates the invitation to those on
30 that list. The list includes among others all of those



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this is, of course, to ensure that two or three
municipal units are not calling for tenders at the
same time. The Department maintains a list of those
municipal units which are not calling for tenders at
present and it is the intention to publish this list
in the near future.



1 who have purchased municipal debentures in the past
2 or who request that their names be added to the list.
3 It is intended as a basic list and invitations are
4 sent to anyone designated by the municipality. There
5 is nothing to prevent the municipal unit from preparing
6 and distributing any other information it may wish.
7 Practically all municipal debentures in Nova Scotia
8 are sold by tender. There are one or two special
9 cases each year; the reasons are obvious ones, such
10 as, (a) the issue may be too small to go through
11 the cumbersome machinery of calling tenders, or
12 (b) it is the opinion of officials of this Department
13 that no tenders would be received, or (c) tenders
14 have been invited and none received.

15 40. With the exception of certain units that are
16 experiencing acute economic difficulties at the present
17 time, municipal units in this province generally have
18 not had any serious difficulty in selling debentures,
19 provided they are willing to pay the interest charges.

20 41. If it is recognized that the national
21 interest is involved in the construction of certain
22 facilities like schools and hospitals, and that such
23 construction is sometimes delayed because the
24 responsible municipal units do not see the increased
25 revenues forthcoming to meet additional debt charges,
26 then it would seem that a good case could be made for
27 the Federal Government to provide the necessary
28 grants or loans. This need for a loan fund created by
29 the Federal Government has been stressed by the
30 Federation of Mayors and Municipalities. It is not



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40. With the exception of certain units that are experiencing acute economic difficulties at the present time, municipal units in this province generally have not had any serious difficulty in raising debentures, provided they are willing to pay the interest charges.

41. It is recognized that the national interest is involved in the construction of certain facilities like schools and hospitals, and that such construction is sometimes delayed because the responsible municipal units do not see the increased revenues forthcoming to meet additional debt charges then it would seem that a good case could be made for the Federal Government to provide the necessary grants or loans. This need for a loan fund created by the Federal Government has been stressed by the Association of Mayors and Municipalities. It is not



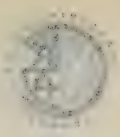
1 obvious, however, that the control over municipal
2 borrowing resulting from the administration of a federal
3 fund would be an adequate substitute for the present
4 market control. It is considered that if steps could
5 be taken by the Federal and Provincial Governments
6 to lower the cost of borrowing to municipal units,
7 that this would be desirable; provided it does not
8 encourage borrowing beyond needs and does not increase
9 the cost of money for other borrowers.

10 42. It is considered that the pooling of
11 municipal borrowing would increase the cost for the
12 units with better credit ratings and they would not
13 use the pool. If there were defaults by some units,
14 these would have to be met by other users of the pool.

15 43. Present total net debenture debt of all Nova
16 Scotia municipal units is of the order of 70 million
17 dollars. Fifteen million was borrowed in 1961.
18 The Province has no power at the present time to
19 guarantee the borrowings of municipal units.

20 44. There is nothing in the Province of Nova
21 Scotia experience to indicate that there should be any
22 increase in the term of municipal unit loans. There
23 is much evidence to support the statement that the
24 sooner a municipal unit pays for its capital expenditure
25 out of current revenue the better.

26 45. In Nova Scotia, the per capita net debenture
27 debt (Appendix III), during the period 1956 to 1960
28 inclusive, for cities has increased from \$200.27 to
29 \$216.91 and for towns from \$91.40 to \$99.37. The
30 increase is modest in view of the development and



ALSO

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the cost of money for other borrowers.

It is considered that the pooling of

municipal borrowing would increase the cost for the

units with better credit ratings and they would not

use the pool. If there were defaults by some units,

these would have to be met by other users of the pool.

Present total net debenture debt of all Nova

Scotia municipal units is of the order of 40 million

dollars. Fifteen million was borrowed in 1931.

The Province has no power at the present time to

guarantee the borrowings of municipal units.

There is nothing in the Province of Nova

Scotia experience to indicate that there should be any

increase in the term of municipal unit loans. There

is much evidence to support the statement that the

scored a municipal unit have for its capital expenditure

out of current revenue the better.

In Nova Scotia, the net capital net debenture

debt (Appendix III), during the period 1926 to 1930

inclusive, for cities has increased from \$200.00 to

\$416.91 and for towns from \$91.40 to \$22.31. The

increase is modest in view of the development



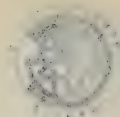
Nethercut & Young

Toronto, Ontario

A1868

1 expansion of services in the cities and towns. In
2 rural municipalities, during the same period, the
3 per capita net debenture debt increased from \$23.54
4 to \$75.08. However, during that period, most of the
5 rural municipalities were engaged in a school building
6 programme necessitated by the change from the small
7 local school units to a consolidated school system.
8 It should be noted that the Province under the provisions
9 of the Education Act pays a part of the cost of the
10 school building programme ranging to a high of over
11 80 per cent in some of the municipalities with a low
12 assessment. Part of the per capita debt is therefor
13 an obligation of the province.

14
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... and towns. ...
...
...

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III. ECONOMIC AND INDUSTRIAL

46. We feel that the Commission could well give consideration to the need for better planning and co-ordination between the provinces and the Federal Government as one of the more important ways to combat economic recessions. Appropriate federal policies that would tend to encourage provincial deficits in a period of declining economic activity nationally would be an added factor to accomplish the national aim of more stable economic growth.

47. Studies made by Professor Cairncross in 1960, of the effect of monetary policy on the Atlantic region, brought the following observations:

(1) There has been more (economic) slack in the Atlantic region than in the rest of Canada in the past few years.

(2) A case can be made for applying credit restricting measures more gently in this region and for measures to offset the effects on the region caused by a general restriction of credit nationally.

(3) There has been no attempt by monetary authorities or the banking system to shield particular areas of Canada from the consequences of credit restriction.

(4) There have been few specific complaints in the Atlantic region of production loss or curtailment of expansion plans because of refusal of credit during the times of credit restriction.



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restriction of credit nationally.
- (3) There has been no attempt by monetary
authorities or the banking system to shield
particular parts of Canada from the
consequences of credit restriction.
- (4) There have been few specific complaints
in the Atlantic region of production loss or
curtailment of expansion which depend on
retention of credit during the times of credit



(5) The effects of credit restriction elsewhere in Canada and external events have affected Atlantic province business activity more than any shortage of bank finance.

(6) Future use of monetary measures to regulate activity throughout Canada should be supplemented by more selective instruments of control that would assure a more even pressure of demand in various parts of the country, e.g.:

(a) "moral suasion" on commercial banks to exempt selected areas from the full force of credit rationing.

(b) use of C.M.H.C. to provide freer mortgage funds where unsatisfied demand for new houses could be shown in an area of underemployment.

(c) increased disbursement of federal funds through public works or direct grants.

48. In the report of the Royal Commission on Provincial Development and Rehabilitation, Nova Scotia (1944), it was recommended that a provincial lending authority be established to make loans at an interest rate as near as possible to the actual cost to the government of making the loan, and only after thorough and competent investigation of the soundness of the venture. It was contended that the economic position and circumstances of Nova Scotia were such that capital



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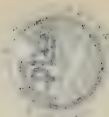
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venture. It was contended that the economic position



1 for local investment was not freely available. The
2 Commssioner, R. MacGregor Dawson, stated: "Large
3 accumulations of capital, such as occur almost
4 spontaneously in highly industrialized regions, simply
5 do not exist in Nova Scotia, for the province lacks
6 not only large-scale industries, but also the capital-
7 accumulating businesses such as insurance, trust
8 companies, etc. The concentration of the latter in
9 Central Canada, in fact, results in a continual drain
10 of money to the central provinces from Nova Scotia
11 investors. Another factor inhibiting the flow of capital
12 for the establishment or expansion of industries in
13 Nova Scotia was a history of unhappy experiences with
14 venture capital due to undesirable promotional
15 practices.

16 49. The Commissioner was also of the opinion
17 that the "small" industries that were to be assisted
18 by the Industrial Development Bank (the Bill to
19 incorporate I.D.B. was then before the House of
20 Commons) would be considered fairly large industries
21 by Nova Scotia standards and would be few in number
22 so that the needs of the genuinely "small" Nova Scotia
23 industries would still remain to be met. The subsequent
24 history of the loan activities of the Government of
25 Nova Scotia supports the Commissioner's contention.

26 50. From 1944 to 1948, funds were provided
27 for lending by capital vote of the legislature. In
28 1948, the Industrial Assistance Act provided for the
29 establishment of an Industrial Assistance Fund and
30 the appointment of an advisory board. In 1951, the



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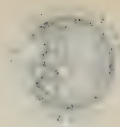
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1 Industrial Assistance Act was replaced by the
2 Industrial Loan Act and the Industrial Assistance
3 Fund became the Industrial Loan Fund; the size of
4 the Fund is not limited by statute. The Act
5 provides for the appointment of an Industrial Loan
6 Board to examine applications and make recommendations
7 to the Minister. The Governor in Council is not bound
8 by the Loan Board recommendations but, in practice,
9 the recommendations are usually followed. The Act
10 provides for regulations (Appendix IV), most important
11 of which are that the Board must be satisfied that
12 the funds cannot be obtained from other sources
13 on reasonable terms and conditions, that the applicant
14 must provide at least 50 per cent of the total funds
15 required, that the proceeds are to be used for the
16 acquisition of fixed assets, and that the term of
17 the loan should not be substantially in excess of ten
18 years.

19 51. These regulations were approved by Order
20 in Council in 1955 and represent a policy evolved
21 from operating experience over a period of years and
22 they had been used as a guide for some time before
23 being formally adopted.

24 52. From the beginning, the Government's loan
25 programme was intended to be a source of funds
26 supplementary to the normal agencies. This was
27 inherent in the explicit designation of the early votes
28 for "smaller" industries. In processing applications,
29 efforts were made to determine whether or not the
30 applicant had access to other funds on reasonable terms.



Industrial Loan Act and the Industrial Assistance
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the fund was increased to £100 million.
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of which are that the Board must be satisfied that

the funds can be obtained from other sources

on reasonable terms and conditions, that the applicant

must provide at least 10 per cent of the total funds

required, that the proceeds are to be used for the

acquisition of fixed assets, and that the total of

the loan should not be substantially in excess of ten

years.

51. Where applications were received in 1955

in Council in 1955 and received a policy advice

from operating experience over a period of years and

they had been used as a basis for some time before

being formally adopted.

52. From the beginning, the Government's aim

programme was intended to be a source of funds

supplementary to the normal government. This was

intended to be a source of funds for the main

for 'smaller' industries. In providing facilities

affords were made to determine whether or not the

applicant had access to other funds on reasonable terms



1 This procedure was greatly simplified when the
2 Industrial Development Bank opened a branch in Halifax
3 in June 1956. It then became practical to insist
4 that even the smallest borrower make application
5 to the Industrial Development Bank. It is now
6 established policy to require the applicant to have
7 a letter from the Industrial Development Bank stating
8 that his application has been turned down before it
9 will be considered by the Industrial Loan Board.
10 It is also now required that the applicant approach
11 a chartered bank for assistance under the Small
12 Business Loans Act if the application is one that meets
13 the requirements of the S.B.L.A.

14 53. The Government of Nova Scotia has also an
15 Industrial Development Act giving broad powers to
16 assist in the establishment or development of industry.
17 The types of loan made under the Act include fishery
18 development in a single industry community, cold
19 storage facilities for the apple industry, an
20 abattoir for the livestock industry.

21 54. The prime purpose of this Fund is to
22 promote economic development on a community or industry-
23 wide basis, and not simply to be a source of capital
24 for an individual firm. While the requirements
25 respecting the borrower's equity, for example, are
26 not as exacting as under the Industrial Loan Act,
27 it is not to be considered as a last resort for
28 applicants that cannot meet the standards of credit-
29 worthiness under that Act.

30 55. The total money loaned for industrial



This procedure was greatly simplified when the Industrial Development Bank opened a branch in Halifax in June 1956. It then became practical to insist that even the smallest borrower make application to the Industrial Development Bank. It is now established policy to require the applicant to have a letter from the Industrial Development Bank stating that his application has been turned down before it will be considered by the Industrial Loan Board. It is also now required that the applicant approach a chartered bank for assistance under the Small Business Loan Act before applying to the Industrial Development Bank. The Government of Nova Scotia has also an Industrial Development Act giving powers to assist in the establishment or development of industry. The types of loan made under the Act include fishery development in a single industry community, cold storage facilities for the apple industry, an abattoir for the livestock industry. The prime purpose of this fund is to promote economic development on a community or industry basis, and not simply to be a source of capital for an individual firm. While the requirements respecting the borrower's equity, for example, are not as exacting as under the Industrial Loan Act, it is not to be considered as a last resort for applicants that cannot meet the standards of credit. The total money loaned for industrial



1 projects was \$6,664,343 over a period of 17 years
2 or less than \$400,000 a year. This represents a
3 comparatively small proportion of the total annual
4 investment in manufacturing. Figures published by
5 the Department of Trade and Commerce show investment
6 in manufacturing in Nova Scotia for new capital,
7 repair and maintenance of approximately \$34 million
8 annually in the last decade (1952-1961) inclusive).

9 56. While the dollar amount of funds loaned
10 to industry by the Province is comparatively small,
11 the employment effects have been substantial. Total
12 employment at the end of 1960 in firms established
13 with the assistance of a provincial loan since the
14 inception of the programme was approximately 1,400.
15 Firms that were already in business at the time of
16 receiving a loan, that is recipients of so-called
17 expansion loans, had a cumulative total of about
18 540 employees in 1960. Total employment in
19 manufacturing in Nova Scotia was 28,168 in 1959.

20 57. For the development of the tourist industry,
21 it was considered desirable to stimulate the provision
22 of additional accommodation for visitors to the province.
23 The Industrial Loan Fund and Board dealt with the
24 applications and a total of \$3,839,752 has been loaned
25 for this purpose to 134 applicants. Interest rate
26 of 5 to 6½ per cent and a repayment period of
27 approximately 10 years applies to most of these
28 tourist loans.

29 58. In evaluating the employment impact of the
30 provincial lending authority, we believe it is



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58. In evaluating the employment impact of the

provincial lending authority, we believe it is



1 to take a cut-off date after the first decade of
2 operation. Increases in employment with the passage
3 of a longer time may be due to altogether new and
4 different investment. Information prepared for
5 the Gordon Commission revealed that employment (new
6 jobs) in new firms and new branch plants starting
7 in Nova Scotia in the period 1946-55 was approximately
8 2,700, or about 10 per cent of the total number then
9 employed in the manufacturing industry. Industries
10 established with government assistance accounted for
11 40 per cent of the total employment (new jobs) in
12 these new firms and new branch plants.

13 59. In 1957, the Province established a Crown
14 Company, Industrial Estates Limited. Its primary
15 function is the construction of new plants for rent
16 on a favourable long-term basis. It was noted that
17 other more viable industrial areas (New England,
18 Toronto, etc.) had developed private financial
19 institutions to provide facilities for industry on
20 a lease back arrangement. It was felt that a similar
21 service should be offered in Nova Scotia as an
22 inducement for industrial development and expansion.
23 Industrial Estates Limited is not prescribed by
24 virtue of a firm's ability to provide funds from its
25 own resources or to raise money elsewhere.

26 60. In the development of a programme for
27 inducing industries to locate in Nova Scotia and
28 inducing existing Nova Scotia industries to expand
29 or rehouse, Industrial Estates Limited has in the
30 past four years expended on land, buildings and



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other more viable industrial areas (New Brunswick,

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virtue of a firm's ability to provide funds from its

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In the development of a programme for

industrial estates to locate in Nova Scotia and

industrial estates Nova Scotia industries to expand

or rehouse, Industrial Estates Limited has in the

past four years expended on land, buildings and



1 services for tenants a total of \$4,212,535, has
2 loaned on buildings against real estate mortgages
3 \$469,892, and has loaned on equipment against
4 chattel mortgages \$166,755. In addition to these
5 actual expenditures, there are at the present time
6 commitments for future expenditure of double this
7 amount.

8 61. Over 1,000 persons are employed in new or
9 existing enterprises assisted by the company.

10 Approximately 1,000 persons will be employed by
11 industries which Industrial Estates Limited is
12 committed to assist.

13 62. In 1936, the Government of Nova Scotia,
14 in co-operation with the Government of Canada, established
15 a Fishermen's Loan Fund of \$100,000 for the purpose
16 of aiding in the re-establishment of needy fishermen
17 in the province. Additional monies were provided
18 by both governments until 1943 when the federal
19 contribution ceased.

20 63. The original fund provided loans with a
21 maximum of \$40 to each applicant. This maximum
22 was later raised to \$100, the early emphasis was on
23 re-establishment, loans were mostly for fishing gear
24 and the term was one year. The repayment record was
25 not good and little stimulation of the industry
26 was evident.

27 64. It was apparent that the fishermen needed
28 more in the way of financial aid and in 1944, after
29 the federal contribution to the original fund ceased,
30 the Government of Nova Scotia enacted legislation



charged mortgages \$150,000. In addition to these actual expenditures, there are at the present time

61. Over 1,000 persons are employed in new existing enterprises created by the company. Approximately 1,000 persons will be employed by industries which industrial wastes created is considered to be small.

62. In 1956, the Government of Nova Scotia in co-operation with the Government of Canada, established a Fisheries Loan Fund of \$100,000 for the purpose of aiding in the re-establishment of needy fishermen in the province. Additional monies were provided in 1957 and 1958. The fund was closed in 1959.

63. The original fund provided loans with a maximum of \$40 to each applicant. This maximum was later raised to \$100, the early emphasis was on re-establishment, loans were made for fishing year and the term was one year. The repayment record was not good and little stimulation of the industry

64. It was reported that the Fisheries Loan Fund was in the way of financial aid and in 1958, after



1 to establish the Fishermen's Loan Fund and a
2 Fishermen's Loan Board to administer the Fund. The
3 money is provided by a capital vote of the legislature
4 and there is no specified maximum amount.

5 65. The Fishermen's Loan Board screens all
6 applications and recommends to the Minister those
7 applicants that they consider eligible for a loan.
8 Since 1944, the type and size of loan has changed
9 considerably. Loan applications will now be
10 considered for any fisherman resident in the province
11 for five years with at least two years' fishing
12 experience and within certain age limits. An
13 incorporated company in the business of processing
14 or catching fish is also eligible for a Fishermen's
15 loan. Loan applications will be considered for the
16 purchase or construction of boats, engines or gear
17 of a capital nature. The term of these loans is
18 fixed by regulations of the Board and varies from
19 three years for a gasoline engine to twelve years
20 for the larger and longer lived boats. Rate of
21 interest charged is $4\frac{1}{2}$ per cent. Since enactment
22 of the Act of 1944, the Government of Nova Scotia
23 has loaned a total of 3 million, 300 thousand dollars
24 to 1,150 applicants. Most of these loans have been
25 for the construction of new boats. In 1944, the number
26 of loans was 44, total amount \$73,565, of which
27 \$18,130 was for new boats. In 1961, total number
28 of loans was 115 and amount was \$531,438, of which
29 \$396,000 was for new boats. Losses written off have
30 amounted to approximately $1\frac{1}{2}$ per cent (Appendix V).



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or catching fish is also eligible for a fisherman's

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of a capital nature. The term of these loans is

fixed by regulations of the Board and varies from

three years for a gasoline engine to twelve years

for the larger and longer lived boats. Rate of

interest charged is 4 per cent. Since enactment

of the Act of 1914, the Government of Nova Scotia

has loaned a total of 3 million, 300 thousand dollars

to 1,150 applicants. Most of these loans have been

for the construction of new boats. In 1914, the number

of loans was 44, total amount \$13,565, of which

\$18,130 was for new boats. In 1961, total number

of loans was 115 and amount was \$251,458, of which

\$396,000 was for new boats. Losses written off have

been \$1,100,000, or 27 per cent of the amount loaned.



1 66. With this Loan Fund, the Government of
2 Nova Scotia has provided a credit facility for the
3 fishing industry to permit and encourage improvement
4 and rapid modernization of fish catching equipment
5 of a capital nature. It has provided measurable
6 benefits to the fishing industry, the fishing
7 community and the provincial economy.

8 67. The Federal Government also offers a loan
9 service to the fishing industry through certain
10 approved lending agencies. Maximum for these loans
11 is \$4,000 to one applicant; interest rate is 5 per
12 cent. It would appear that this loan facility has
13 not been used too widely in Nova Scotia. From 1955
14 to 1960, 109 loans were made in Nova Scotia for a total
15 of \$135,997. In all of Canada, the total loaned by
16 this authority for the 5 year period was \$832,578 to a
17 total of 712 applicants.

18 68. It is a well known fact that the
19 organization of farms throughout Canada has been
20 shifting significantly toward higher investment per
21 unit. From supplying their own power by way of
22 horses and simple machines, the trend has been to
23 heavy mechanization with concomitant higher cash
24 operating expenses. Thus the cash or credit which
25 each farmer must have at his command has increased
26 tremendously.

27 69. Farm credit has always been an important
28 part of the farm business and one might add that there
29 never was adequate credit available nor was the best
30 use made of credit in the agricultural sector. During



1 recent years, the sources of farm credit have been
2 shifting more to institutions and away from private
3 lenders, to much higher amounts and to those forms
4 of credit that are accompanied by supervisory or
5 advisory services.

6 70. It must be emphasized that large amounts
7 of capital are required for efficient farm operation.
8 Family farms, which form the basic structure of
9 Canadian agriculture, frequently require investment
10 of up to \$70,000. It is obviously very difficult
11 for a farmer to repay this amount and acquire complete
12 ownership of his property in the course of a single
13 lifetime. The use of perpetual or longer term
14 mortgages with the concept of a loan to the farm
15 rather than to an individual should be considered.

16 71. In 1956, the Government of Nova Scotia
17 appointed a Royal Commission on Rural Credit. This
18 Commission reported in 1957 and made twelve specific
19 recommendations (Appendix VI). This Commission
20 found that short term credit was available to farmers
21 through the banks, credit unions, merchants and
22 supply companies to an extent that compared favourably
23 with the credit facilities available to other groups
24 within the economy. They found the major problem
25 to be in the supply of long term credit and that
26 this problem was aggravated by the withdrawal of private
27 loan companies from the field of mortgage lending
28 in Nova Scotia and the resulting greater reliance
29 on government agencies, primarily the then Canadian
30 Farm Loan Board and the Nova Scotia Land Settlement



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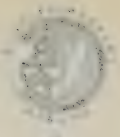


1 Board. After examining the adequacy of these credit
2 sources for the future development of agriculture
3 in Nova Scotia, the Commission recommended a merger
4 of the two Boards with a pooling of the funds and
5 a pro-rating of the losses. This merger was not
6 carried out but changes in both the N.S.I.S.B. and
7 the Canadian Farm Loan Board were made.

8 72. The Nova Scotia Land Settlement Board
9 started as a relief measure in 1932 to settle
10 unemployed miners on farms. As a land settlement
11 device, it was a failure and the Act was amended
12 to limit the available funds to applicants with
13 farming experience and some capital of their own.
14 A maximum limit of \$3,000 was set and interest was
15 fixed at 5 per cent. With these changes, the use
16 of the funds declined but the number of failures
17 also declined at a faster rate. In 1959, the
18 maximum loan limit was raised to \$30,000 for an
19 individual and \$50,000 for a partnership. In 1960,
20 the annual loan total reached approximately 1.5 million
21 dollars and interest was charged at 5 per cent.

22 73. The Land Settlement Board policy of lending
23 to bona fide farmers at 5 per cent is similar to the
24 Federal Farm Credit Corporation policy. The Land
25 Settlement Board is five persons, a chairman and
26 four successful farmers. The experience of thirty
27 years has shown that local knowledge and interest
28 is a decided advantage in making recommendations to
29 the government on farm loan applications.

30 74. The Federal Farm Credit Corporation obviously



and extension of credit facilities would provide more
consistent policies among the provinces. It has been
suggested that an examination be made of the
possibilities of a merging or pooling of the efforts
of these authorities so that more funds might come
from the F.F.C.C. which is in the best position to
provide them, and more supervision and local know-
ledge might be provided by the N.S.I.S.B. which is in the
best position to supply those factors. In this way,
the advantages that each has to offer to a farm
credit programme could be made more effective.
The Farm Improvement Loans Act is used
now chiefly as a source of short term credit for
machinery and equipment. Nova Scotia farmers
also need to an increasing degree credit for livestock
purchases or basic herd building, as one of the main
areas open for increased value of production on farms
in beef cattle. Farm improvements other than machinery
and equipment are also needed. The present upper limit
of \$1,500 for Farm Improvement Loans is now deemed
to be too low. In view of the scale of investment
required on a modern Nova Scotia large farm unit,
it would appear that \$10,000 would be a more realistic
maximum and the extension of the Commission is directed
to this restricting factor in the Farm Improvement
Loan regulations.
With large farm units and their closer
integration with the business community as a common
enterprise, the possibilities of establishing a "large



1 has greater resources to support a credit programme
2 and extension of their activities would provide more
3 consistent policies among the provinces. It has been
4 suggested that an examination be made of the
5 possibilities of a merging or pooling of the efforts
6 of these authorities so that more funds might come
7 from the F.F.C.C. which is in the best position to
8 provide them, and more supervision and local knowledge
9 might be provided by the N.S.I.S.B. which is in the
10 best position to supply those factors. In this way,
11 the advantages that each has to offer to a farm
12 credit programme could be made more effective.

13 75. The Farm Improvement Loans Act is used
14 now chiefly as a source of short term credit for
15 machinery and equipment. Nova Scotia farmers
16 also need to an increasing degree credit for livestock
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18 areas open for increased value of production on farms
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20 and equipment are also needed. The present upper limit
21 of \$7,500 for Farm Improvement Loans is now deemed
22 to be too low. In view of the scale of investment
23 required on a modern Nova Scotia larger farm unit,
24 it would appear that \$10,000 would be a more realistic
25 maximum and the attention of the Commission is directed
26 to this restricting factor in the Farm Improvement
27 Loan regulations.

28 76. With larger farm units and their closer
29 integration with the business community as a commercial
30 enterprise, the possibilities of establishing a "line



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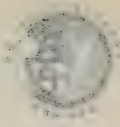
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establishment of establishments a "line



1 of credit" for a farmer by a single agency should
2 be explored. If such an arrangement could be evolved,
3 it would provide the flexibility in financial
4 transactions now enjoyed by other sectors of the
5 business community and a farm operator would have
6 more freedom of action to take advantage of cash
7 discounts and "good buys" when they offer. In the
8 U.S.A., the so-called Co-operative Banks fulfill this
9 role for certain farm business organizations. We have
10 no evidence that a separate banking institution is
11 needed in Canada to fill this gap in agricultural
12 credit policy but we would suggest to the Commission
13 that more emphasis in this direction by the chartered
14 banks would be helpful. It is probably true that the
15 attitude of the chartered banks toward farm loans
16 has changed somewhat through the last decade but most
17 local managers are reluctant to advance a loan to a
18 farmer unless such loan is secured by collateral
19 equal to the amount of the loan and in no case will
20 the period of the loan exceed three years. Three
21 years might be long enough for a crop loan in Nova
22 Scotia but it is not long enough for a livestock farmer.
23 77. Nova Scotia farmers have established several
24 co-operative marketing organizations, the largest
25 of them, Nova Scotia Co-operative Abattoir,
26 capitalization \$754,000; Scotian Gold (fruit and
27 vegetable), capitalization \$507,280; A.C.A. (poultry),
28 capitalization \$127,408; Eastern Co-operative Services
29 (farm supplies), capitalization \$678,428. There
30 are also 58 co-operative stores serving both rural



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1 and urban communities with paid up capital of \$2,476,767
2 and 210 credit unions meeting the credit needs of
3 63,500 urban and rural members with total assets of
4 \$17,044,244.

5 78. The Nova Scotia Co-operative Abbatoir was
6 assisted by the Government of Nova Scotia through
7 the purchase of shares to the value of \$200,000
8 and an agreement to loan a further sum if needed to
9 complete construction and provide working capital.
10 Total participation by the Government including share
11 capital and loans was fixed at \$1,200,000. The
12 loans are first mortgage at 5 per cent, the term not
13 to exceed 30 years. Further assistance in the form
14 of bank guarantees has been supplied to this
15 enterprise.

16 79. The Government also assisted the United
17 Fruit Company of Nova Scotia, predecessor of Scotian
18 Gold Co-operative, with loans for the construction
19 of cold storage facilities. The apple industry of
20 Nova Scotia, when faced with the loss of the United
21 Kingdom market during and after the war, found it
22 necessary to change in a relatively short period of
23 time from a bulk pack and bulk movement of the crop
24 to a single market (the U.K.), to storage, box pack and
25 diversified markets. There were not the financial
26 resources in the industry itself to make this change-
27 over so Government assistance was deemed necessary
28 and loans totalling \$510,832 were advanced. Interest
29 rate was 3 per cent and term 20 years.

30 80. This provision of public funds for industrial



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Nethercut & Young

Toronto, Ontario

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1 capital raises questions about the adequacy of private
2 financial institutions to foster economic growth in
3 this province. The problem as conceived at the
4 initiation of the Province's loan programme (1944)
5 was not so much that there was an overall shortage
6 of funds but rather than, because of historical
7 and economic factors, risk capital was not readily
8 available for industry, particularly smaller industry
9 in Nova Scotia. Studies made since that time, while
10 based largely on qualitative analyses involving a
11 considerable measure of judgment, in the absence of
12 financial statistics on a provincial basis, bear out
13 this early assessment.

14 81. To cover this "institutional" gap so-called,
15 various agencies and programmes have been developed --
16 the Industrial Development Bank, the Province's
17 direct lending programme, Industrial Estates Limited,
18 and some modest moves in the use of private funds
19 through local foundations. Funds provided have been
20 medium and long-term credit mainly for the acquisition
21 of machinery and equipment, and the construction of
22 buildings, although there has been in some cases
23 limited provision of working capital.

24 82. The Province of Nova Scotia welcomed the
25 establishment of the Industrial Development Bank and
26 urged the necessity of a Halifax branch several years
27 before it was established. It is our view that
28 provision of an increasing proportion of medium and
29 long-term financing by the I.D.B. rather than the
30 provincial lending authorities is a sound development.



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1 83. Since the opening of the Halifax branch
2 in 1956 and the resulting greater accessibility of the
3 facilities to Nova Scotia firms, there has been a
4 diminishing activity under the Provincial Industrial
5 Loan Act. It has also made possible the establishment
6 of a practical test regarding the availability of funds
7 from other sources in the administration of the
8 Industrial Loan Act. Our interest in the I.D.B.
9 goes further than a desire to use federal funds where
10 available rather than our own. We recognize that the
11 size and scope of the I.D.B. as a national institution
12 give it access to staff and resources that the
13 Province cannot watch. There are limits to the demands
14 that can be met by voluntary advisory boards in screen-
15 ing loan applications. A federal agency with a staff of
16 professional engineers, economists and accountants
17 should be better placed to administer funds for
18 development.

19 84. Statistics are not available to prove
20 that Nova Scotia is a net source of funds for the
21 Canadian banking system, but it has been suggested
22 by Dawson and others that insurance, trust and loan
23 companies drain off potential risk capital from this
24 province. It would appear that there are two possible
25 ways to increase local availability of risk capital.
26 One is to provide public funds. The other is to have
27 the centralized financial institutions co-operate
28 in the establishment of regional pooling arrangements.
29 We stated previously that no difficulties have been
30 encountered in marketing Nova Scotia debentures provided



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1 we are willing to pay current interest rates. This
2 may not be so, however, if the Province is required
3 to borrow substantial sums of money for industrial
4 capital. The Province may be forced into this
5 position (unless some Federal agency provides funds)
6 because industrial capital in large amounts and for
7 long terms is not available to industrial undertakings
8 in this province, perhaps because of the reason
9 referred to above.

10 85. It is futile to deplore the extension of
11 public agencies in this field if no other way to
12 meet a widely felt need is devised by the private
13 institutions involved. The direct action taken up to
14 now by the Provincial Government may not lead to the
15 best long run allocation of resources but at least it
16 is a partial solution. Market forces may take a long
17 time to bring about desired changes in the allocation
18 of resources. Years of frustratingly slow economic
19 growth may justify a little impatience for in the
20 long run, as Lord Keynes said, "We are all dead".

21 86. No reference has been made to the role of
22 the banks in the provision of short-term credit and
23 one might assume that we consider the division between
24 short and longer term credit, clear, definite and
25 sustained. Actually, the mortgage loans made by
26 the Province are contingent upon the applicant having
27 adequate working capital and satisfactory banking
28 arrangements. It is also realized that there have
29 been changes in bank policy regarding term loans which
30 have undoubtedly been reflected in attempts to satisfy



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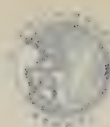
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been changes in bank policy regarding term loans which
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1 credit needs elsewhere. However, it is not possible
2 to isolate the effects of such changes from other
3 influences on the volume and pattern of provincial
4 lending.

5 87. The same can be said with respect to the
6 effects of monetary ease or restraint in the more
7 general sense. The volume of funds loaned and the
8 number of enquiries do not show a distinct relation-
9 ship with changes in monetary policy. However, before
10 the increase in activities of the Industrial Develop-
11 ment Bank, there was an impression among administrative
12 personnel in the lending authorities that interest
13 in Government loans tended to increase with the
14 uptrend in the business cycle and diminished on
15 the downswing. On the upswing, more business
16 opportunities seemed to appear or there was more
17 optimism about existing situations. This, however,
18 is more an impression than a demonstrable fact born
19 out by statistics.

20 88. Nova Scotia regulates life insurance companies
21 under the Insurance Companies Act. The effect of the
22 Act is that companies carrying on business in Nova
23 Scotia must be registered under the Canadian and
24 British Insurance Companies Act (Canada) or the
25 Foreign Insurance Companies Act (Canada). We feel
26 that this is sufficient safeguard with respect to
27 solvency. Chapter 9 of the Acts of 1962 amends and
28 consolidates the statutory law relating to insurance.
29 Part 8 relating to life insurance will come into
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Nethercut & Young

Toronto, Ontario

A1888

1 July 1, 1962.

2 89. Credit Union operations are regulated by
3 the Credit Union Act, Chapter 64, r.S.N.S., 1954. The
4 Act provides for incorporation and regulation of
5 operations. The Board of Directors has the general
6 management of the affairs of the Credit Union.
7 Investments are limited to trustee investments in the
8 province. Interest rate on loans to members is
9 limited to 1 per cent per month (12 per cent per annum).
10 A minimum interest charge not exceeding fifty cents
11 for a single loan can be made. Credit Unions have
12 powers under the Act to borrow to meet current
13 local demands for funds. The Government of Nova
14 Scotia appoints a Registrar of Credit Unions and
15 Inspectors under the Act as required.

16 90. The Act governing Trust Companies is the
17 Trust Companies Act, Chapter 300 of the R.S.N.S., 1954.
18 This Act provides for the regulation, powers and
19 internal management of trust companies incorporated
20 by the legislature of Nova Scotia. The Act provides
21 for the inspection of Nova Scotia trust companies
22 annually, which is done by arrangement with the
23 Federal Department of Insurance. The only two
24 active trust companies incorporated by Acts of the
25 legislature of Nova Scotia are the Acadia Trust
26 Company and the Nova Scotia Trust Company.

27 91. The Parliament of Canada is also empowered
28 to incorporate trust companies. The Federal Department
29 of Insurance also inspects annually trust companies
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1 appear to be any problems arising out of this divided
2 jurisdiction.

3 92. Loan companies as defined in the Act are
4 regulated by the Loan Companies Act, Chapter 157,
5 R.S.N.S., 1954. This Act only applies to loan
6 companies which have the powers set out in Sections
7 54-60 of the Act, among which are lending money on
8 improved real estate up to 60 per cent of its value.
9 Loan companies which are regulated by this Act are
10 incorporated by special act of the legislature. The
11 Act provides for the inspection of loan companies
12 annually, and this is done by arrangement with the
13 Federal Department of Insurance. The only two
14 Nova Scotia companies which come under the Loan
15 Companies Act are Nova Scotia Savings, Loan and
16 Building Society and Yarmouth Building and Loan
17 Society.

18 93. The Parliament of Canada has also enacted
19 legislation regulating Federal loan companies which
20 is similar in scope to the Nova Scotia Loan Companies
21 Act and provides for the same inspection. There does
22 not appear to be any problem arising out of this
23 divided jurisdiction.

24 94. The Money-Lenders Act, Chapter 181, R.S.N.S.,
25 1954, provides a method whereby a borrower might obtain
26 relief through the courts in a case where interest
27 and charges on a loan are excessive. It should be
28 noted that under this Act the "rate permitted" is
29 defined as a rate that is a legal and valid rate in
30 respect of the loan and is not in contravention of any

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1 Act heretofore or hereafter enacted by the Parliament
2 of Canada.

3 95. Under Section 91 of the British North
4 America Act, the Parliament of Canada is given
5 exclusive legislative power with respect to "interest".
6 The Parliament of Canada has exercised that power
7 in many instances, and specifically by enacting the
8 Interest Act, the Money Lenders Act, the Pawn Brokers
9 Act, and the Small Loans Act.

10 96. In addition to the Acts referred to above,
11 the Legislature of the Province of Nova Scotia has
12 enacted the Loan Companies Inspection Act, Chapter
13 158, R.S.N.S., 1954, and the Loan Corporations Act,
14 Chapter 159, R.S.N.S., 1954.

15 97. The Loan Companies Inspection Act empowers
16 the Minister to appoint a Superintendent to examine
17 the affairs of every loan company. The Act has not
18 been invoked.

19 98. The Loan Corporations Act applies only to
20 companies with head offices outside of the Province
21 of Nova Scotia, and provides for the furnishing of
22 certain information by a loan corporation on registra-
23 tion or on request. This Act is not now used because
24 every such company is required to register under
25 the Domestic, Dominion and Foreign Corporations Act,
26 Chapter 74, R.S.N.S., 1954, and pursuant to that
27 Act must furnish or may be required to furnish
28 essentially the same information as under the Loan
29 Corporations Act.

30 99. An examination of the Statutes of the Provinces



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99. An examination of the Statutes of the Province



1 of Canada will show that most, if not all, of the
2 provinces have legislation relating to the activities
3 of money lenders. However, it would appear that the
4 provinces are largely limited to obtaining
5 information with respect to the activities of money
6 lending agencies and requiring full disclosure, and
7 that effective control of interest rates can only
8 be exercised by the Parliament of Canada.

9 100. The question as to whether or not legislation
10 controlling and regulating interest rates should be
11 strengthened and extended is a complex one, and
12 our only purpose in referring to the matter is to
13 point out that the controlling or regulating of
14 interest rates, if desirable, can only be dealt with
15 effectively by the Parliament of Canada.

16 101. The Securities Act, Chapter 268, R.S.N.S.,
17 1954, is the Act which regulates investment companies
18 and security dealers. All companies or persons dealing
19 in securities or investments must be registered as
20 brokers under the Securities Act, and all the security
21 issues which these brokers sell must also be
22 registered under the Act, giving complete information
23 regarding their affairs. Salesmen who work for brokers
24 must also be registered.

25 102. We have noted in several paragraphs of this
26 brief the lack of availability of statistical data
27 to delineate existing situations precisely or to
28 prove fairly obvious situations. Professors Dawson,
29 Cairncross and other students of our economy have
30 commented on this lack and the resulting handicap in

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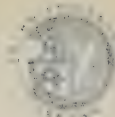


1 preparing useful information. Our recommendations
2 will deal with some of the immediate needs in this
3 field.

4 103. Reviewing the position of Nova Scotia in
5 relation to the adequacy of the banking system to
6 serve our needs, it has been suggested by Professor
7 Cairncross "that bank credit has not been a major
8 factor in the fluctuations in activity" in this region.
9 The prosperity of the primary industries and expenditures
10 by the federal authorities, particularly defence
11 services, have been of great importance as an element
12 in both capital and current outlays. Neither of
13 these expenditures nor the production of primary products
14 can have been much affected by lack of bank credit.
15 Whatever the conceivable effects, the real effects of
16 credit restriction within the region appear to have
17 been far less conspicuous than the damping effects
18 of credit restriction outside the region and of
19 obstacles to expansion in other markets.

20 104. The financial problem of the Government of
21 Nova Scotia is not fundamentally a borrowing problem
22 but is a problem of adequate sources of revenue.

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will deal with some of the immediate needs in this

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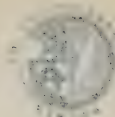
IV RECOMMENDATIONS

1. We have reviewed in Chapter I our provincial and municipal responsibilities and problems and it is clear that there are serious financial problems for some units now and as long as present trends continue, these problems will become more serious. We recommend that some means be devised to improve the co-ordination between federal and provincial governments so that in periods of economic recession federal funds can be made available to provincial and municipal governments to enable them to follow counter-recession policies and accelerate programmes to stimulate long run economic growth.

2. We recommend that ways be explored to improve the timing and determination of the size of debenture issues but this improvement should not envisage the setting up of any authority to decide the timing for any provincial or municipal issue or to arbitrate the amount.

3. We have endeavoured to point out the ever growing fiscal needs of municipalities and the increasing financial support given by the provincial government to assist in meeting the needs.

We recommend that a federal government loan fund be created that could be used by municipalities for the construction of certain facilities that are to some degree of national interest and that, if possible, the use of this fund be regulated so that the funds could be used in the regional economy to effectively counter recession periods.



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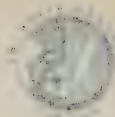
We recommend that a federal government loan fund be created that could be used by municipalities for the construction of certain facilities that are to some degree of national interest and that, if possible, the use of this fund be restricted so that the funds could be used in the national economy to effectively counter recession periods.



1 4. We believe that there is sufficient evidence
2 of an adverse effect on the Atlantic Region from
3 severe credit restrictions in Canada to warrant a
4 recommendation that the Commission make every effort
5 to devise a more flexible control of credit in Canada
6 that will recognize varying needs of different areas
7 of the country.

8 5. In paragraph 102 of the brief, we refer
9 to the lack of adequate statistical data particularly
10 in the financial sector. . If better and more useful
11 planning of their spending, taxing and borrowing
12 programme is to be done by the provinces, they need
13 access to more precise and reliable data in many
14 areas of finance and economics. We recommend that
15 the Commission examine carefully ways and means of
16 making available to the provinces on a confidential
17 basis if necessary any needed basic data that is now
18 available to the Bank of Canada, the Industrial
19 Development Bank and the chartered banks. It should
20 be made possible for a province to determine more
21 exactly than is now possible its position as a
22 contributor of funds to national capital markets.
23 It would be desirable to know more precisely the market
24 for provincial securities.

25 6. In dealing with the agriculture sector of
26 our economy, we have pointed out certain factors
27 in the Federal Farm Improvement Loan policy that
28 prevent the fullest use being made in Nova Scotia
29 of that facility. We recommend that the present
30 ceiling of \$7,500 on Federal Farm Improvement Loans



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6. In dealing with the agriculture sector of
our economy, we have pointed out certain factors



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1 be raised to a maximum of \$10,000. We trust the
2 Commission will also examine the suggested change to
3 a "line of credit" for farmers and explore ways that
4 might bring improvement on the present situation of
5 multiple sources of credit. We also recommend
6 further examination of the possibility of pooling the
7 resources of the Federal Farm Credit Corporation and
8 the Nova Scotia Land Settlement Board so that the
9 best features of each can be brought to bear on the
10 long term credit problems of agriculture.

11 7. We have set out, in the brief, information
12 on the extension of public agencies particularly the
13 Government of the province into the industrial loan
14 field. There is much evidence of the need for growth
15 in this field and there does not appear to be at present
16 any evidence that the imperfections in the capital
17 markets that have caused this extension of public
18 agencies will be adjusted early or easily.

19 We recommend the contribution by the Federal
20 Government of more loan capital at lower interest
21 rates and longer terms to any area facing a need for
22 large blocks of industrial capital to attain a
23 satisfactory level of economic growth.
24
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We recommend the contribution by the Federal

Government of more loan capital at lower interest rates and longer terms to any area facing a need for large blocks of industrial capital to obtain a satisfactory level of economic growth.



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Also

Appendix I

Debentures Issued During Last 10 Years

	Dated	Series	%	Amount	Term	Callable	Due	Pay- able	Private
									Negoti- ated Tender
7	6/15/53	4L	4 1/4	10,000,000	16	6/15/67	6/15/69	Can.	N
	3/15/54	4M	3 3/4	8,000,000	16	3/15/68	3/15/70	Can.	T
8	11/15/54	4N	3 1/4	12,000,000	16	11/15/68	11/15/70	Can.	T
	5/15/55	4P	3 1/4	10,000,000	20	6/15/73	6/15/75	Can.	T
	1/2/56	4Q	3 1/2	12,000,000	20	1/2/66	1/2/76	N.Y.	N
9	7/16/56	4R	4	12,000,000	20	7/16/74	7/16/76	Can.	T
	12/15/56	4S	4 3/4	2,200,000	8	12/15/63	12/15/64	Can.	N
10	12/15/56	4T	5	7,800,000	17	12/15/71	12/15/73	Can.	N
	3/1/57	4U	5	5,000,000	17	3/1/72	3/1/74	Can.	N
	6/15/57	4V	5	5,000,000	20	6/15/75	6/15/77	Can.	T
11	11/26/57	4VA	4 5/16	1,000,000	20	-	11/26/77	Can.	N-P
	12/1/57	4W	4 3/4	8,000,000	20	12/1/75	12/1/77	Can.	T
12	2/1/58	4X	2 1/2	5,000,000	3	8/1/58	2/1/61	Can.	N-P
	5/15/58	4Y	4	5,000,000	6	-	5/15/64	Can.	T
	5/15/58	4Z	4 1/2	10,000,000	20	5/15/76	5/15/78	Can.	T
13	2/15/59	5A	2 1/2	3,500,000	2	-	2/15/61	Can.	N
	2/15/59	5B	5	8,500,000	20	2/15/77	2/15/79	Can.	N
	6/15/59	5C	2	5,000,000	2	-	6/15/61	Can.	N
14	1/15/60	5D	2	8,500,000	2	-	1/15/62	Can.	N
	1/15/60	5E	2	1,100,000	11 mos.	-	12/15/60	Can.	N-P
15	4/1/60	5F	5 1/8	10,000,000	20	4/1/70	4/1/80	N.Y.	N
	5/2/60	5G	2	1,000,000	3 mos.	-	8/2/60	Can.	N
16	7/15/60	5H	5 1/2	10,000,000	20	7/15/78	7/15/80	Can.	N
	8/2/60	5J	2	5,000,000	3	-	8/2/63	Can.	N
	9/15/60	5K	5	3,000,000	10	-	9/15/70	Can.	T
17	9/15/60	5L	5	7,000,000	20	9/15/78	9/15/80	Can.	T
	12/15/60	5M	2	7,500,000	2+2 mos.	-	2/15/63	Can.	N
18	12/15/60	5N	2	1,000,000	1	-	12/15/61	Can.	N-P
	5/1/61	5P	5 3/4	10,000,000	20	5/1/79	5/1/81	Can.	N
	7/1/61	5Q	5	1,700,000	5	-	7/1/66	Can.	N
19	7/1/61	5R	5 1/2	10,300,000	22	-	7/1/83	Can.	N
	9/1/61	5S	5 1/4	8,000,000	21	9/1/80	9/1/82	Can.	N
20	12/15/61	5T	4 3/4	2,000,000	5	-	12/15/66	Can.	N
	12/15/61	5U	5 1/4	10,000,000	23	12/15/81	12/15/84	Can.	N
	3/15/62	5V	5 1/2	10,000,000	20	3/15/80	3/15/82	Can.	N

236,100,000

Summary

Term up to 5 years	37,600,000
Term from 5 to 10 years	13,900,000
Term over 10 years	<u>184,600,000</u>

236,100,000



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Appendix II

Debt Outstanding at March 31, 1962

	<u>\$</u>	<u>%</u>	<u>Canada</u>	<u>U.S.</u>	<u>Canada &</u>
	<u>Outstanding</u>	<u>Outstanding</u>	<u>Pay</u>	<u>Pay</u>	<u>U.S. Pay</u>
Term up to 5 years	\$ 83,175,000	25.138	19.396	2.116	3.627
Term 5 to 10 years	89,950,000	27.186	18.874	4.533	3.778
Term over 10 years	<u>157,745,000</u>	<u>47.676</u>	<u>41.027</u>	<u>6.649</u>	<u>---</u>
	<u>\$330,870,000</u>	<u>100.000</u>	<u>79.297%</u>	<u>13.298%</u>	<u>7.405%</u>



Summary

Estimated 1942-1943

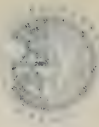
Category	1942	1943	1944	1945	1946
Term up to 2 years	\$ 22,172,000	22,138	12,306	12,306	12,306
Term 2 to 10 years	11,111,000	11,111	18,111	18,111	18,111
Term over 10 years	111,111,000	111,111	111,111	111,111	111,111
Total	\$ 144,394,000	144,394	144,394	144,394	144,394



Appendix III

Per Capita Net Debenture Debt - Not Including
Other Long Term Debt - As At December 31

<u>Year</u>	<u>Cities</u>	<u>Towns</u>	<u>Municipalities</u>	<u>All Units</u>
1956	200.27	91.40	23.54	74.19
1957	195.98	92.91	33.00	78.97
1958	200.61	91.52	47.64	87.38
1959	201.78	92.43	59.59	94.33
1960	216.91	99.37	75.08	107.40



Per Capita Net Debt - Not Including
Other Long Term Debt - As At December 31

Year	Towns	Municipalities	Total
1900	90.37	75.08	165.45
1909	92.43	50.50	142.93
1918	91.92	47.64	139.56
1927	84.41	37.80	122.21
1936	81.00	35.10	116.10



Appendix IV

REGULATIONS PURSUANT TO THE INDUSTRIAL LOAN ACT

Made by the Governor-in-Council on
the 25th day of March, 1955 (and
amendments)

1. In these Regulations, unless the context otherwise requires:

(a) "Act means the Industrial Loan Act.

(b) "Loan" includes a guarantee of a loan made by another person.

2. The following activities are designated as industries or types of industries to which the Act shall apply:

(a) The processing of raw or other material into substantially altered products deemed capable of developing or diversifying the provincial economy by:

(1) The manufacture of new products, or

(11) the manufacture of products produced in insufficient volume for the provincial or regional markets, or

(111) the production of goods for shipment to markets beyond the Province;

(b) the business of freezing, curing, processing or packing of fish in commercial quantities;

(c) a type of service or activity essential to the development of manufacturing or industries defined in clause (a) or (b) of this Regulation:

(d) any other production activity which is necessary to the proper utilization of the natural



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(ii) the manufacture of products produced
in insufficient volume for the provincial
or regional markets, or
(iii) the production of goods for shipment
to markets beyond the province;

(b) the business of freezing, curing,
processing or packing of fish in commercial quantities;
(c) a type of service or activity deemed

to be an industry or type of industry defined
in clause (a) or (b) of this Regulation;
(d) any other production activity which
is necessary to the proper utilization of the natural



resources of the Province, but not including the following types of activity: logging, sawmilling, agriculture (except the operation of mink ranches or greenhouses), bottling plants, pasteurizing, butter making, mining, quarrying, broadcasting, transportation, communications, publishing, the generation and distribution of electrical energy, retail or wholesale trade, or, with the exception of hotels, the provision of personal services:

(e) the operation of a hotel as "hotel" is defined by the Hotel Regulation Act.

(f) the operation of a trailer park, a camping site or recreational facilities for tourists. (N.S. Laws, 1958, page 521).

3.00. A loan shall not be made in respect of an industry as designated by these regulations:

(a) when in the opinion of the Board the funds required can be obtained from other sources on reasonable terms and conditions:

(b) unless the capital invested or to be invested in the industry by the applicant or others exceeds or approximately equals the amount of the loan;

(c) primarily for the purpose of providing working capital, refinancing, consolidating indebtedness, or for the transfer of properties;

(d) for a period substantially in excess of ten years;

4.00. Loans in respect of hotels shall be primarily made for the purpose of:



mining, mining, quarrying, prospecting, transportation,
publishing, the redemption and
distribution of electrical energy, retail or whole-
sale trade, or, with the exception of hotels, the
provision of personal services;

(e) the operation of a hotel or "hotel"

as defined by the Hotel Regulation Act.

(f) the operation of a water power

generating plant or recreational facilities for tourists.

3. A loan shall not be made in respect of an

industry as designated by these regulations;

(a) when in the opinion of the Board the

funds required can be obtained from other sources

on reasonable terms and conditions;

(b) unless the capital invested or to be

invested in the industry by the applicant or others

exceeds or approximately equals the amount of the

loan;

(c) primarily for the purpose of providing

working capital, manufacturing, construction, or other

or for the transfer of property;

(d) for a period substantially in excess of



(a) providing hotel accommodation in areas where the need is apparent;

(b) increasing hotel accommodation in areas where the need is apparent;

(c) effecting substantial improvements in existing facilities.

5. ~~Loans~~ Loans may be made on the following conditions:

(a) that the loan is, in the opinion of the Board, commercially sound;

(b) that proper accounting record will be maintained by the borrower;

(c) that adequate insurance coverage is assigned to the Province;

(d) that such ~~loans~~ loans bear interest at a rate of $6\frac{1}{2}$ per centum per annum;

(e) such other terms and conditions as the Governor-in-Council deems advisable;

6. The procedure for dealing with loan applications is as follows:

(a) the applicant shall complete the loan application form and present it to the Secretary of the Board together with all information relevant to the application.

(b) the Department of Trade and Industry will make a thorough investigation and appraisal of the application and report thereon to the Board.

(c) the Board may state the terms and conditions under which it recommends that a loan be made.

(d) the board may reject or defer any



(a) providing hotel accommodation in areas

(b) increasing hotel accommodation in

areas where the need is apparent;

(c) effecting substantial improvements

in existing facilities.

5. Loans may be made on the following conditions:

(a) that the loan is, in the opinion of

the Board, commercially sound;

(b) that proper accounting records will be

maintained by the borrower;

(c) that adequate insurance coverage is

assigned to the Province.

6. The Board may, in its discretion, assign a

rate of 6% per annum per annum;

(a) such other terms and conditions as

the Governor-in-Council deems advisable;

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(b) the Department of Trade and Industry

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(c) the Board may, at its discretion, and

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(d) the Board may reject or defer any



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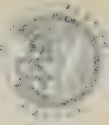
1 application which it is not prepared to recommend.

2 7. A loan in respect of a hotel shall not
3 be considered by the Board until the Director of
4 Industrial and Tourist Promotion has submitted a
5 written opinion;

6 (a) as to the need for the hotel facilities
7 or improvements, as the case may be;

8 (b) as to the quality of the facilities
9 planned;

10 (c) as to the capabilities of the applicant
11 to provide the services proposed.



application which it is not prepared to recommend
7. A loan in respect of a hotel shall not
be considered by the Board until the Director of
Industrial and Tourist Promotion has submitted a

written statement

- (a) as to the need for the hotel facilities
or improvements, as the case may be;
(b) as to the quality of the facilities
planned;
(c) as to the capabilities of the applicant
to provide the services proposed.



Appendix V

The Fishermen's Loan Board of Nova Scotia									
Year	Appli- cations	Approvals	Advances including Insurance Premiums	Repay- ment	To Build Boats	Types of			
						Purchase Engines	Purchase Gear and Equipment	Purchase Boats	Other
1943		37	46,461	22,863	30				7
1944	56	44	69,023	40,340	35				7
1945	75	59	117,701	112,245	32	2		2	6
1946	23	18	178,497	87,892	6	19		5	
1947	20	16	269,218	119,822	6	7		3	
1948	27	22	101,691	69,828	10	7		5	
1949	48	25	40,501	168,917	7	13		4	1
Dec. 1st, 1949 to March 31, 1951									
1951	61	46	269,638	157,321	24	14	1	7	
1952	93	68	567,109	246,316	36	13	6	11	
1953	87	68	446,602	414,749	44	13	1	10	2
1954	62	51	276,551	320,984	24	16	6	5	
1955	97	80	491,037	369,975	51	18	2	9	
1956	119	102	707,029	457,855	70	21	6	5	
1957	110	93	1,084,836	704,623	60	26	1	6	
1958	103	85	1,165,275	793,315	57	23	2	3	
1959	136	120	984,072	812,711	83	30	5	2	
1960	136	119	896,279	908,066	76	35	6	2	
1961	136	115	773,515	829,897	67	38	9	1	
TOTAL	1389	1168	8,485,035	6,637,719	718	302	45	80	23



Appendix VI

REPORT OF THE ROYAL COMMISSION ON RURAL CREDIT

PROVINCE OF NOVA SCOTIA - 1957 -

RECOMMENDATIONS

No. 1

(a) That the government of the Province of Nova Scotia open negotiations with the Government of Canada for the establishment of one Board (apart from Veterans' Land Administration) to serve as the sole government agency for the supplying of long term credit to farmers in Nova Scotia;

(b) That the majority of members of the Board be appointed by the Provincial Government;

(c) That funds be supplied by the Board by both the Federal and Provincial Governments; and

(d) That responsibility for losses be pro-rated between the two governments.

No. 2

In view of conditions in Nova Scotia, if a joint arrangement cannot be achieved between the Provincial and Federal Governments with respect to establishing one Board to provide mortgage credit to farmers in Nova Scotia as outlined in Recommendation No. 1, the Commission recommends that the Agriculture and Marketing Act of Nova Scotia be amended to permit the Nova Scotia Land Settlement Board to enter the general field of mortgage lending so that as comprehensive a programme as possible of agricultural



REPORT OF THE ROYAL COMMISSION ON RURAL CREDIT
 PROVINCE OF NOVA SCOTIA - 1957 -

RECOMMENDATIONS

- (a) That the Government of the Province of Nova Scotia open negotiations with the Government of Canada for the establishment of one Board (apart from Veterans' Land Administration) to serve as the sole Government agency for the supplying of long term credit to farmers in Nova Scotia;
- (b) That the majority of members of the Board be appointed by the Provincial Government;
- (c) That funds be supplied by the Board by both the Federal and Provincial Governments; and
- (d) That responsibility for losses be pro-rated between the two Governments.

No. 2

In view of conditions in Nova Scotia, it is recommended that a joint arrangement cannot be achieved between the Provincial and Federal Governments with respect to establishing one Board to provide mortgage credit to farmers in Nova Scotia as outlined in Recommendation No. 1, the Commission recommends that the Agricultural and Marketing Act of Nova Scotia be amended to permit the Nova Scotia Land Settlement Board to enter the general field of mortgage lending so that as



development may be undertaken consistent with sound lending procedures and in the light of production and market possibilities and the availability of funds.

No. 3

That, in view of the importance of the farm woodlot to so many farms in Nova Scotia, greater recognition be given by the Government lending agency or agencies to the forest land on farms as security for mortgage loans.

No. 4

(a) That the age limit for the repayment of loans granted to individual borrowers by the Nova Scotia Land Settlement Board be raised from the 61st birthday to the 66th birthday; and

(b) That the remaining age, experience and occupation requirements of the Nova Scotia Land Settlement Board and the Canadian Farm Loan Board be retained.

No. 5

(a) That the maximum amount of loan or assistance granted to an individual on the security of the farm property or properties be increased to \$20,000; and

(b) That, with special reference to the Agriculture and Marketing Act of Nova Scotia, proportionate adjustments be made in the amounts to partnerships of two and three or more persons.

No. 6

(a) That moneys provided by government for loans to farmers be advanced at a rate of interest



That, in view of the importance of the farm

woodlot to so many farms in Nova Scotia, greater recognition be given by the Government Lending Agency or agencies to the forest land on farms as security for mortgage loans.

(a) That the age limit for the repayment

of loans granted to individual borrowers by the Nova Scotia Land Settlement Board be raised from the 61st birthday to the 65th birthday; and

(b) That the remaining age, experience

and occupation requirements of the Nova Scotia Land Settlement Board and the Canadian Farm Loan Board be retained.

No. 2

(a) That the maximum amount of loan on

assistance granted to an individual on the security of the farm property or properties be increased to \$20,000; and

(b) That, with special reference to the

Agriculture and Marketing Act of Nova Scotia, proportionate adjustments be made in the amounts to partnerships of two and three or more persons.

(c) That money provided by Government for

loans to farmers be advanced at a rate of interest



1 which in the long run will approximate the cost of
2 money to the government; and

3 (b) That, if administratively feasible, the
4 contracts between the lending agency and the borrowers
5 be subject hereafter to periodic revision so that the
6 rate charged to all borrowers will be equalized and
7 kept in line with the rate paid by the government.

8 No. 7

9 That the present maximum term of thirty
10 years on mortgage loans advanced by the government
11 board(s) remain unchanged.

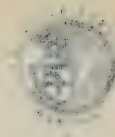
12 No. 8

13 (a) That regulations regarding agricultural
14 implement loans under the Farm Improvement Loans
15 Act be amended to provide for a longer period of
16 repayment for mobile implements such as tractors,
17 combines, hay balers, and so forth (Ref. P.C. 1957-4.
18 Sec. 5(a) (vi) B.); and

19 (b) That the consolidation of small loans
20 contracted under the Farm Improvement Loans Act
21 be permitted up to the maximum of any individual
22 loan to enable the borrower to take advantage of the
23 longer terms applicable to larger loans provided that
24 such consolidation is not inconsistent with certain
25 specific regulations such as those referred to above.

26 No. 9

27 That Regulation No. 6 of the Nova Scotia Land
28 Settlement Board be appended by inserting the clause "who
29 in the opinion of the Board is capable of the successful
30 operation of the farm or land in respect of which he



the cost of

money to the Government; and

(b) That, if administratively feasible, the

contracts between the lending agency and the borrowers

be subject hereafter to periodic revision so that the

rate charged to all borrowers will be equalized and

kept in line with the rate paid by the Government.

No. 7

That the present maximum term of thirty

years on mortgage loans advanced by the Government

board(s) remain unchanged.

No. 8

(a) That regulations regarding agricultural

implement loans under the Farm Improvement Loans

Act be amended to provide for a longer period of

repayment for mobile implements such as tractors,

combines, hay balers, and so forth (N.S. R.S. 1957-4,

Sec. 5(a) (vi) B.); and

(b) That the consolidation of small loans

contracted under the Farm Improvement Loans Act

be permitted up to the maximum of any individual

loan to enable the borrower to take advantage of the

longer terms applicable to larger loans provided that

such consolidation is not inconsistent with certain

specific regulations such as those referred to above.

No. 9

That Regulation No. 6 of the Nova Scotia Land

Settlement Board be amended by inserting the clause "who

in any financial statement or account submitted to the

operation of the farm or land in respect of which he



seels assistance" so as to read as follows:

"6. An applicant for assistance as a Settler who is a Canadian citizen shall make a down payment of not less than 33-1/3 per cent of the purchase price of the farm land or other agricultural land purchased from the Board, provided however that the Board, in the case of an applicant who has had training at agricultural college or in junior club work or has gained experience from lifetime work of a well operated farm or farms, or who in the opinion of the Board is capable of the successful operation of the farm or land in respect of which he seeks assistance, may, in its discretion, accept from such applicant a down payment of not less than 10 per cent of the purchase price of the farm or other agricultural land purchased from the Board."

No 10

(a) That, depending on circumstances, deferment of payments on principal but not of interest be permitted up to three years following the granting of the loan, as now provided by the Agriculture and Marketing Act (Revised Statutes of Nova Scotia, 1954, Part XIX, Sec. 212, (5)0,

(b) That if a borrower makes repayments in advance of the due dates, the amount so repaid be put in a fund at interest, to be drawn upon in the future either in the event the borrower fails to



...who is a Canadian citizen shall make
a down payment of not less than 25% of the
cost of the purchase price of the farm land
or other agricultural land purchased from
the Board, provided however that the Board,
in the case of an applicant who has had
training at agricultural college or in similar
club work or has gained experience from
lifetime work of a well operated farm or
farms, or who in the opinion of the Board
is capable of the successful operation of
the farm or land in respect of which he
seeks assistance, may, in its discretion,
accept from such applicant a down payment
of not less than 10 per cent of the purchase
price of the farm or other agricultural land
purchased from the Board."

(a) That, depending on circumstances,
deferral of payments on principal but not of interest
be permitted up to three years following the maturity
of the loan, as now provided by the Act.

1937, Part XIX, Sec. 216, (2)(c).

in advance of the due dates, the amount so repaid
be put in a fund at interest, to be drawn upon in
the event the borrower



1 make a regular payment or ultimately to liquidate
2 the final balance of the loan.

3 No. 11

4 That, unless administrative difficulties
5 are too great or the cost prohibitive, loans granted
6 under conditions envisaged under either Recommendation
7 No. 1 or No. 2 be insured to cover eventualities arising
8 either from the death or disablement of borrowers.

9 No. 12

10 (a) That in order to provide for
11 consultative and guidance or supervisory services
12 to agricultural borrowers both at the time of
13 negotiating for loans and later during the course
14 of repayment, steps be taken to relate the work of
15 the Farm Management Division and of the Forestry
16 Services of the Departments of Agriculture and
17 Marketing and of Lands and Forests respectively to
18 the work of whatever lending agency or agencies are
19 retained or established in relation to Recommendation
20 No. 1 and No. 2;

21 (b) That when each application for a loan
22 is received by the lending agency a member of the
23 supervisory personnel submit an appraisal of the
24 economic possibilities of the plan proposed by the
25 prospective borrower;

26 (c) That such report be filed with the
27 application for reference purposes and be used as a
28 guide by the lending agency when considering the
29 granting of the loan; and

30 (d) That in addition to collecting and

The final balance of the loan.

No. 11

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No. 1 or No. 2 be insured to cover eventualities arising

either from the death or disablement of borrower.

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application for reference purposes and be used as a

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granting of the loan; and

(d) That in addition to collecting and



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1 recording specific and technical information
2 respecting the individual farm units and operators,
3 the lending agency collect and evaluate general
4 information regarding the agricultural and forestry
5 situation and outlook for the purpose of detecting
6 general changes in economic conditions that will
7 impinge upon the agricultural industry of the province
8 and will have a bearing, therefore, on the policy
9 and programme of supplying credit to farmers.

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the lending agency collect and evaluate general
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and programme of supplying credit to farmers.

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SUMMARY OF

A BRIEF TO BE PRESENTED TO
THE ROYAL COMMISSION ON BANKING AND FINANCE

by

THE NOVA SCOTIA CREDIT UNION LEAGUE

P1 We should like to express our appreciation to the members of this Commission for the opportunity to appear here to-day and express the views of the Nova Scotia Credit Union League on the question of banking and finance and in particular, the objectives, the operations and the role that credit unions in Nova Scotia play in the present working of the financial and monetary system.

P2 The Nova Scotia Credit Union League is a federation of the credit unions in Nova Scotia, most of which are located in small towns and rural communities. All credit unions in the Province, with one exception, are members of the League.

1. STRUCTURE, ORGANIZATION AND MANAGEMENT
Historical

P3 The Credit Union Movement in Nova Scotia dates back to 1933. It was started and received its guidance for the first twelve years from the Extension Department of Saint Francis Xavier University. This was but one phase of

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A BRIEF TO BE PRESENTED TO
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1. STRUCTURE, ORGANIZATION AND MANAGEMENT

Historical

The Credit Union Movement in Nova
Scotia dates back to 1883. It was started and
received its knowledge for the first twelve years
from the Extension Department of Belfast Ireland.
This was but one phase of

the programme popularly known as the Antigonish Movement, which the University launched in an effort to effect improvements in the economy and the lives of the people in Nova Scotia. A more detailed account of the significance of this Movement, and the contribution it has made, is contained in the Brief accompanying this Summary.

Number and Distribution

P4

(a) The Number of credit unions in Nova Scotia as of the 30th September, 1962, was 210 with 63,000 members and assets of \$17,044,000. They are located throughout the Province but one-half of the total number of credit unions are of the community type located in rural communities. The remaining one-half are divided between urban community, industrial and parochial. In recent years there has been a consistently steady growth in assets, growth but at a lesser rate in membership and some contraction in the number of credit unions operating because of merging and liquidations in small rural communities.

Nature of Operations

P5

(a) Basically credit unions are the same throughout but there are minor differences in operations between credit unions serving different classes of people such as farmers and industrial workers. Income is different for these people resulting in differences in the rate of deposits, size and purpose of loans and the



1 repayments thereof. Most differences are more
2 a matter of degree.

3
4 Organizational structure

5 P6 (b) The organizational structure in
6 Nova Scotia is similar to other regions. The
7 individual is a member of the local union; it
8 in turn is affiliated with the League; and the
9 League in turn is affiliated with the Credit
10 Union National Association which is actually an
11 international body.

12 Functions of Officers

13 P7 (d) Each credit union has a board
14 of directors of not less than five members, a
15 credit committee of not less than three members,
16 and a supervisory committee of three members.
17 The board is charged with the responsibility of
18 directing the general affairs of the credit
19 union, such as determining policy. The credit
20 committee has the general supervision over all
21 applications for loans; and the supervisory
22 committee acts as an internal auditing committee.

23 P8 The same general situation prevails
24 in the League and Credit Union National Associ-
25 ation. The League has a board of twelve elected
26 by the delegates of credit unions at the League
27 annual meeting. It is responsible to direct the
28 general affairs of the League. It appoints a
29 credit committee with authority to act on all
30 loan applications. The responsible officers of

Department of the Interior, Washington, D.C.

a matter of degree.

Organizational structure

(b) The organizational structure in

Nova Scotia is similar to other regions. The individual is a member of the local union; in turn is affiliated with the league; and the league in turn is affiliated with the Credit Union National Association which is generally an

Functions of Officers

(c) Each credit union has a board of directors of not less than five members, a credit committee of not less than three members, and a supervisory committee of three members. The board is charged with the responsibility of directing the general affairs of the credit union, such as determining policy. The credit committee has the general supervision over all applications for loans; and the supervisory committee acts as an internal auditing committee in the league and Credit Union National Association. The league has a board of twelve elected by the delegates of credit unions at the league annual meeting. It is responsible to direct the general affairs of the league. It appoints a credit committee with authority to act on all



1 CUNA are likewise elected by delegates from each
2 League and has duties similar to those of the
3 directors of the League or a local credit union.

4 P9 The League, through its field staff,
5 supplemented by outside assistance, carries on a
6 vigorous programme of education and training for
7 the officers of all credit unions. Courses of
8 various types are offered along with a wide
9 assortment of literature, operating manuals as
10 well as technical assistance from League staff.

11 12 II. LEGISLATION AND SUPERVISION

13 14 P10 (a) Legislation

15 Credit unions in Nova Scotia operate
16 under the Credit Union Act which was placed on
17 the statute books in 1933 prior to the incor-
18 poration of the first credit union. Basically
19 the credit union legislation is very much alike
20 with any major differences appearing in recent
21 years as more attention is being paid to the
22 revision of the various Credit Union Acts. There
23 are no major improvements that we have in mind for
24 our Credit Union Act. It is working reasonably
25 well and is being amended as a need seems to
26 suggest some changes.

27 P11 (b) Supervision

28 All credit unions in the Province are
29 inspected annually by Government Inspectors
30 appointed by Governor-in-Council and directly



1 under the supervision of the Registrar of
2 Credit Unions. Up to this time the supervision
3 of credit unions has been relatively good. It
4 could be improved by added staff to allow more
5 time for the inspectors to discuss inspections
6 more thoroughly with the boards of directors.
7 We think, too, that consideration could be given
8 to the supervision of credit unions coming
9 directly under the new Department of Finance
10 and Development suggested recently by our Premier
11 where more attention could be directed towards
12 the growth factor of credit unions since these
13 organizations can make a substantial contri-
14 bution to the improvement of economic conditions
15 among many of our people.

16 Pl2 (c) Internal Supervision

17 The internal supervision of credit
18 unions comes within the jurisdiction of the
19 supervisory committee. This committee is not as
20 effective as we would like to see for a number
21 of reasons which we outlined in detail in the
22 main Brief. Along with this committee we have
23 an excellent bonding programme, good government
24 inspection, independent audits for all credit
25 unions over \$2,000,000 and a constant vigilance
26 exercised by the staff of the League. These,
27 plus the programme of education for directors
28 and committee members, provide a system of con-
29 trols and checks that assure the highest possible
30 degree of safety.

could be improved by adding staff to allow more time for the inspectors to discuss inspections more thoroughly with the boards of directors. We think, too, that consideration could be given to the supervision of credit unions coming directly under the new Department of Finance and Development suggested recently by our President where more attention could be directed towards the growth factor of credit unions since these organizations can make a substantial contribution to the improvement of economic conditions among many of our people.

(c) Internal Supervision

The internal supervision of credit unions comes within the jurisdiction of the supervisory committee. This committee is not as effective as we would like to see for a number of reasons which we outlined in detail in the main report. Along with this committee we have an excellent lending program, good government inspection, independent audits for all credit unions over \$2,000,000 and a separate staff force exercised by the staff of the Federal Reserve Bank. These, plus the programs of education for directors and committee members, provide a system of control and supervision which would be adequate for the service of safety.



III. ASSETS

P13 (a) Cash and Liquid Reserves

There is no requirement in our Credit Union Act which specifies any degree of liquidity. But, as a matter of policy, the League staff and the inspectors encourage and strongly suggest that credit unions maintain about 20 per cent of their assets in liquid form with 5 per cent of this being retained in actual cash. The balance to be kept in investments and deposits with the League. Generally this advice has been well received by the credit unions as our reports would indicate.

P14 (b) Form in which Reserves are held

The major portion of the credit union's liquid reserves are held with the League, either as investments in the League's share capital or in League deposits. A very small amount is invested in other securities by our credit unions. Credit Unions also have borrowing powers which make it possible to borrow up to 50 per cent of their combined shares, deposits and surplus accounts with the approval of the membership and the consent of the Registrar of Credit Unions. It is our opinion that our credit unions have adequate in the form of liquid reserves which have ranged in recent years between 17.9 per cent and 20 per cent.

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Credit unions also have borrowing powers which

make it possible to borrow up to 20 per cent of

their combined shares, deposits and surplus

accounts with the approval of the membership and

the consent of the Registrar of Credit Unions.

It is our opinion that our credit unions have

sufficient in the form of liquid reserves which have

remained in recent years between 15 per cent

and 20 per cent.



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1 P15 (c) Suggested changes

2 Since we feel our liquidity is adequate
3 we have no suggestions to make either in legis-
4 lation or in practice to improve this without
5 decreasing unnecessarily service to the members.

6
7 Investments

8 P16 (a) Most credit union investments are in
9 League shares which are withdrawable upon
10 approval by the League board. The League board
11 is limited to the amount it can authorize for
12 withdrawal in any one year to 10 per cent of
13 the paid-up capital of the League. Other in-
14 vestments held by credit unions are of a trustee
15 nature and would consist of bonds of the Govern-
16 ment of Canada or the Province of Nova Scotia
17 along with some municipals, institutionals and
18 those of trust companies. It would be our
19 opinion that few, if any, bonds have maturities
20 longer than ten years. In most cases those
21 investments are held till maturity.

22 P17 (b) We feel that the present provision
23 allowing investments exclusively in those
24 securities authorized by law for trust funds
25 and investments in the League is sound and in
26 the best interests of the credit union. Better
27 returns could be had with other investments but
28 it may encourage directors to purchase invest-
29 ments that are speculative with greater risk.

30 P18 (c) There is no division of responsibility



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we have no suggestions to make either in relation or in practice to improve this without decreasing unnecessarily service to the members.

Investments

(a) Most credit union investments are in League shares which are withdrawable upon approval by the League board. The League board is limited to the amount it can authorize for withdrawal in any one year to 10 per cent of the paid-up capital of the League. Other investments held by credit unions are of a trustee nature and would consist of bonds of the Government of Canada or the Province of Nova Scotia along with some municipalities, institutions and those of trust companies. It would be our opinion that few, if any, bonds have maturities longer than ten years. In most cases these investments are held with maturity.

(b) We feel that the present provision allowing investments exclusively in these securities authorized by law for trust funds and investments in the League is sound and in the best interests of the credit union. Better returns could be had with other investments but it may encourage directors to purchase invest-

(c) There is no division of responsibility



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1 on investments between the credit unions and
2 their League or central in Nova Scotia. Such
3 decisions are made exclusively by the respective
4 boards. Since the actual amount of investments
5 carried by our credit unions is so small as to
6 be almost insignificant we feel that there is
7 no good reason why any change in the present
8 legislation or practice should be advocated at
9 this time.

10 P19

11 Loans and Mortgages

12 (a) As a matter of policy credit unions
13 do not enter into the mortgage field in any
14 degree. A few credit unions have made mortgage
15 loans but these are for the most part the few
16 larger credit unions in the Province. The
17 major portion of the resources of credit unions
18 are used to meet the demand for small short-
19 term loans to its members. All applications
20 for loans must be approved by the credit committee
21 of each credit union. The criteria used in
22 appraising credit risks are three-fold:

23 (a) The applicant's character.

24 (b) The purpose of the loan.

25 (c) His ability to repay.

26 Ordinarily credit is not rationed except in so
27 far as to say that preference is always given to
28 the small borrower. If additional funds are
29 needed to meet the demand the credit union may
30 borrow from the League or elsewhere.

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Loans and Mortgages

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- (a) The applicant's character.
- (b) The purpose of the loan.
- (c) His ability to repay.

Ordinarily credit is not rationed except in so far as to say that preference is always given to the small borrower. If additional funds are needed to meet the demand the credit union may



(b) Directors as Borrowers

Directors, committee members and officers may borrow from their credit unions. But if their request is for an amount greater than their savings in the credit union plus the value of stocks and bonds of Canada or the Province, then the application must be approved by a meeting at which a majority of the credit committee are present together with two directors and one member of the supervisory committee sitting together. The vote in favour must be unanimous and the director or officer applying must not be present when the vote is taken.

(c) The most common collateral taken is that of a co-maker. The use of other security is becoming more prevalent such as chattel mortgages and assignments of life insurance.

(d) Basically there is no significant difference in lending practices between regions within the Province.

(e) The maximum rate of interest that a credit union may charge is 12 per cent. This rate compares favourably with the rates of those banks with personal loan departments and is considerably lower than finance companies and most other sources of credit of which we know.

IV. LIABILITIES

(a) Deposits are actually an insignificant



Directors as Borrowers

Directors, committee members and officers may borrow from their credit unions. But if their request is for an amount greater than their savings in the credit union plus the value of stocks and bonds of Canada or the Province, then the application must be approved by a meeting at which a majority of the credit committee are present together with two directors and one member of the supervisory committee sitting together. The vote in favour must be unanimous and the director or officer applying must not be present when the vote is taken.

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(e) The maximum rate of interest that a credit union may charge is 12 per cent. This rate compares favourably with the rates of those banks with personal loan departments and is considerably lower than finance companies and most other sources of credit of which we know.



1 portion of the credit union's liabilities.
2 Five credit unions do offer a personal chequing
3 service to their members and the aggregate of
4 the deposits held by these few credit unions
5 would account for the major portion of total de-
6 posits. All other deposits held by credit unions
7 are on demand. In most cases credit unions do
8 not pay a rate of interest for deposits and where
9 it is paid it usually is from 2 to 2 1/2 per cent.

10 P22

11 Shares

12 (a) Shares in a credit union are actually
13 units of savings and not shares in the accepted
14 sense. They are encouraged in credit unions as
15 being the member's permanent savings. They are
16 withdrawable at any time but the credit union
17 may demand notice of intention. The value of a
18 share is \$5.00 and in Nova Scotia a person be-
19 comes a member only when he has at least one
20 fully paid-up share. Being a shareholder and a
21 member entitles one to all the benefits and
22 privileges of a member.

23 (b) We do not have any accurate informa-
24 tion at this time on the rate of withdrawals but
25 we are attempting to ascertain this and make it
26 available later.

27 (c) The average return on shares for the
28 year ending in 1961 was 3.13 per cent with the
29 highest rate being 5 per cent.

30 (d) As a general rule the rate of dividend

the deposits held by these few credit unions would account for the major portion of total deposits. All other deposits held by credit unions are in the form of time deposits and are insured by the Federal Deposit Insurance Corporation. It is paid it usually is from 2 to 3 1/2 per cent.

Shares

(a) Shares in a credit union are actually units of savings and not shares in the accepted sense. They are encouraged in credit unions to offset the members' permanent savings. They are withdrawable at any time and the credit union may demand notice of intention. The value of a share is \$5.00 and in Nova Scotia a person becomes a member only when he has at least one fully paid-up share. Being a shareholder and a member entitles one to all the benefits and privileges of a member.

(b) We do not have any accurate information at this time on the rate of withdrawals but we are attempting to ascertain this and make it

(c) The average return on shares for the year ending in 1961 was 8.15 per cent with the highest have been 8 per cent.

(d) As a credit union the rate of



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1 on shares does not influence share business to
2 any great extent. For example it may reflect
3 when the difference is between no dividend and
4 say 3 per cent but is not sensitive to the
5 difference between 3 per cent and 4 per cent.
6 This is not a serious problem in our credit
7 unions.

8
9 V. RELATIONS WITH OTHER
10 FINANCIAL INSTITUTIONS

11 P23 Our relations with other financial
12 institutions has been very friendly. We do
13 business daily with the banks and in our opinion
14 have developed very cordial relations. Our
15 relations with other financial institutions are
16 not quite the same since we have less occasion
17 to have relations with them. We do not feel
18 that we are competitors in the accepted sense
19 as we are not in business for profit and there-
20 fore do not have the same motivation for getting
21 business just for the sake of another account.
22 We are concerned with providing the best possible
23 service to those eligible for credit union
24 membership and this we try as best we know how.

25 P24 We recognize that other financial in-
26 stitutions are able to offer more conveniences
27 because of location, office hours and resources.
28 Where we have full-time credit unions with greater
29 resources we are able to render a service that
30

on shares does not influence share business to any great extent. For example it may reflect when the difference is between no dividend and say 3 per cent but is not sensitive to the difference between 3 per cent and 4 per cent. This is not a serious problem in our credit

V. RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

Our relations with other financial institutions has been very friendly. We do business daily with the banks and in our opinion have developed very cordial relations. Our relations with other financial institutions are not quite the same since we have less occasion to have relations with them. We do not feel that we are competitors in the accepted sense as we are not in business for profit and therefore do not have the same motivation for getting business just for the sake of another account. We are concerned with providing the best possible service to those eligible for credit union membership and this we try to do as best we know how. We recognize that other financial institutions are able to offer more convenient facilities than we can and we are able to render a service that



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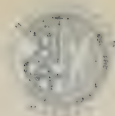
1 compares favourably with other institutions within
2 certain limits. Our smaller credit unions do
3 not have the same advantage. Nevertheless many
4 of these small credit unions are located in areas
5 where there is no bank or other institution and
6 in such cases the service offered by credit
7 unions is significant even if it is limited and
8 at times inconvenient.

9
10 P25 (b) We would prefer to reserve commenting
11 on the proper field of activity for credit
12 unions except to suggest that credit unions are
13 democratic organizations, owned and controlled
14 by the members and it is they who will determine
15 from time to time the various activities in
16 which credit unions will engage. Other comments
17 on this will no doubt be made by the national
18 committee since this will have national ramifi-
19 cations. We would also prefer to make no
20 comment on the question of clearing excepting to
21 suggest that the clearing facilities of the
22 banks are being used in a limited way in Nova
23 Scotia with reasonably good results.

24
25 VI. EARNINGS, EXPENSES AND RESERVES

26 P26 (a) A complete breakdown of the Income and
27 Expense of credit unions in Nova Scotia for the
28 year ending in 1961 is found on page 51 of our
29 Brief.

30 (b) Each credit union must set aside



certain limits. Our smaller credit unions do not have the same advantage. Nevertheless many of these small credit unions are located in areas where there is no bank or other institution and in such cases the service offered by credit unions is significant even if it is limited and at times inconvenient.

(b) We would prefer to reserve commenting on the proper field of activity for credit unions except to suggest that credit unions are by the members and it is they who will determine from time to time the various activities in which credit unions will engage. Other comments on this will no doubt be made by the national committee since this will have national ramifications. We would also prefer to make no comment on the question of clearing excepting to suggest that the clearing facilities of the banks are being used in a limited way in Nova Scotia with reasonably good results.

VI. EARNINGS, EXPENSES AND RESERVES

(a) A complete breakdown of the Income and Expense of credit unions in Nova Scotia for the year ending in 1961 is found on page 51 of our

Brief.



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1 annually 20 per cent of its net earnings into a
2 Guaranty Fund or reserve against loss due to
3 uncollectible loans. All write-downs are examined
4 by the Government Inspectors and the supervisory
5 committee. It is also common practice to re-
6 verse any interest paid on such accounts to the
7 principal so that the guaranty fund is used only
8 to write-off the principal balance remaining
9 after adjusting the interest that has been paid.

10 After paying all operating expenses,
11 providing for reserves, including education,
12 the balance of surplus remaining is returned
13 to the members as a dividend on shares and/or
14 a rebate on interest paid during the year.

15
16 P27

CONCLUSION

17
18 In this summary we have tried to pre-
19 sent to you in a very brief form the answers to
20 many of the questions which you placed before us
21 for comment. We hope that we have done this
22 satisfactorily in this brief form.

23 Respectfully submitted on behalf of
24 Board of Directors of the Nova Scotia Credit
25 Union League

26 (signed) R. MacMullin

27 MANAGING DIRECTOR.

28
29 14th March, 1962.

30 Antigonish, Nova Scotia.



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(Signed) R. MacMillan



Nethercut & Young

Toronto, Ontario

A1923

A BRIEF TO BE PRESENTED TO
THE ROYAL COMMISSION ON BANKING AND FINANCE

by

THE NOVA SCOTIA CREDIT UNION LEAGUE

P1

We should like to express our appreciation to the members of this Commission for the opportunity to appear here to-day and express the views of the Nova Scotia Credit Union League on the question of banking and finance and in particular, the objectives, the operations and the role that credit unions in Nova Scotia play in the present working of the financial and monetary system.

P2

The Nova Scotia Credit Union League is a federation of the credit unions in Nova Scotia, most of which are located in small towns and rural communities throughout the Province. All credit unions in the Province are members of the League in good standing with one exception. A more detailed explanation of the League and its operations will be dealt with in paragraphs 45 to 69 on pages 13 to 21.

1. STRUCTURE, ORGANIZATION AND MANAGEMENT

Historical

P3

Historically the Credit Union Movement in Nova Scotia dates back to January 1933 when



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1. INTRODUCTION, ORGANIZATION AND MANAGEMENT

in Nova Scotia dates back to January 1933 when



1 the first credit union was incorporated. How-
2 ever, it is difficult to discuss the historical
3 development of credit unions in English speaking
4 Canada without mentioning Saint Francis Xavier
5 University and its Extension Department.

6 P4

7 The Extension Department of Saint
8 Francis Xavier University was opened in 1928.
9 This was one of the peak years of the so-called
10 prosperity era. To many people, the good
11 times of the 'twenties' were positive proof
12 that the millenium had arrived. Men forgot the
13 dark days of the past; in their wildest imagin-
14 ation they could not dream of the darker days
15 to come. They revelled in the high tide of
16 good times which reached its crescendo in the
17 late twenties and collapsed in such a
18 spectacular manner in October, 1929.

19 P5

20 The founders of the Antigonish Move-
21 ment had not been deluded by the prosperity of
22 1928 nor had they to wait for the depression of
23 1929 to become dissatisfied with the old order.
24 For decades before this the farmers and fisher-
25 men of Eastern Canada had endured great de-
26 pression. There were a few notable periods in
27 which they had fairly good times, but in the
28 main the old order meant poverty and misery
29 for thousands of them. It is not surprising,
30 therefore, to find that the population of the
seven Eastern counties of Nova Scotia declined



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main the old order meant poverty and misery
for thousands of them. It is not surprising,
therefore, to find that the population of the
seven Eastern counties of Nova Scotia declined



1 by over 26,000 in the forty year period from
2 1891 to 1931.

3
4 P6 The lot of the industrial worker was
5 not much better. In boom times, especially
6 during the last war, the industrial towns
7 pulsated with life, but in between they suffered
8 an economic blackout and became ghost towns
9 where no real human happiness could flourish.
10 The loss of large numbers of people from Eastern
11 Canada acted like a pernicious anaemia on hun-
12 dreds of communities.

13 P7 Long before the economic convulsions
14 of the thirties had shocked our people into
15 the realization something was radically wrong,
16 a number of people in Eastern Nova Scotia had
17 interested themselves in a possible programme
18 to improve conditions in this country. Some of
19 these were professors at the University, others
20 were agricultural workers, and others pastors
21 of rural parishes. These were individual planners
22 and thinkers, each with his own set of ideas as
23 to what was wrong with the world, with Canada,
24 with these Eastern provinces.

25
26 People's School

27 P8 The first solution proposed and ex-
28 perimented with was to bring the people to the
29 University for the benefit of better education.
30 Hence the 'People's School' was organized.



Groups of people with varying educational backgrounds were brought to the University for periods of six weeks and given instruction in various fields of knowledge. The response showed that people were anxious and able to learn but the experiment was discontinued after four years. It was recognized that only a small percentage of the people could be reached in this way and it was decided that the benefits of the University must be brought to the people instead of having the people come to the University.

P9

The second stage in the development of the Movement came with a series of Rural and Industrial Conferences, attended by leaders in all walks of life who were anxious to enquire into the economic difficulties of the people of Nova Scotia. Out of their discussions came the conviction that education of the type which would reach out and be operative in the lives of the great majority of the people must be the first step to reform and social improvement. To organize this educational programme and develop the necessary techniques, the Extension Department was set up.

P10

Basic Principles of Adult Education

The techniques to be used developed as the Movement grew, but from the beginning certain basic principles were established. These were as follows:



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- 1 1. The primacy of the individual. This prin-
2 ciple was based on both religious and
3 democratic teaching: religion emphasizes
4 the dignity of man, created in the
5 image and likeness of God; democracy
6 stresses the value of the individual and
7 the development of individual capabilities.
- 8 2. Social reform must come through education.
9 Social progress in a democracy must
10 come through the action of the citizens;
11 it can only come if there is an improve-
12 ment in the quality of the people them-
13 selves. That improvement can only
14 come through education.
- 15 3. Education must begin with the economic.
16 People are most keenly interested in
17 all concerned with economic needs.
18 Economic reform is the most immediate
19 necessity because these are the most
20 pressing.
- 21 4. Education must be through group action.
22 Group action is natural because man is
23 a social being. His problems are group
24 problems. Any effective adult education
25 programme must, therefore, fit into
26 this basic group organization of society.
- 27 5. Effective social reform involves funda-
28 mental changes in social and economic
29 institutions. It is necessary to face
30 the fact that real reform will necessitate



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1 strong measures of change which may
2 prove unpopular in certain quarters.
3 6. The ultimate objective of the Movement
4 is a full and abundant life for everyone
5 in the community. Economic co-opera-
6 tion is the first step toward a
7 society which will permit every in-
8 dividual to develop to the utmost limit
9 of his capacities.

10 P11 After its organization in 1928 the
11 Extension Department set about to put its pro-
12 gramme into operation. Various techniques were
13 used but probably the most effective in its early
14 years was the organization of study clubs in most
15 communities of Eastern Nova Scotia. These small
16 groups of from eight to twelve persons gathered
17 in each other's homes weekly to discuss problems
18 of the community and search for ways and means of
19 solving them. Literature was prepared by the
20 Extension Department to provide food for thought
21 and later with detailed information on specific
22 projects, such as credit unions.

23
24 P12 In 1931 the Extension Department in-
25 vited Mr. Roy F. Bergengren of Boston to speak
26 at the Rural and Industrial Conference on Credit
27 Unions. By the way, he was hired by Edward A.
28 Filene of Boston to promote the organization of
29 credit unions throughout the United States.
30 Filene had seen the operation of credit unions



1 in India about the turn of the century and he
2 also heard of the work done in the Province of
3 Quebec by Alphonse Desjardins who introduced
4 the credit union idea to this continent in 1900.

5
6 Birth of Credit Unions in Nova Scotia

7 P13 As a result of Mr. Bergengren's visit
8 to Nova Scotia in 1931, it was decided that
9 credit unions could become a very worthwhile
10 project for the people of Nova Scotia to develop.
11 In 1932 the Nova Scotia Credit Union Act was
12 placed on the statute books of the Province
13 and in 1933 the first study groups were ready
14 to apply for the incorporation of a credit union.

15 P14 From 1933 on the Movement spread in
16 Nova Scotia to all counties of the Province.
17 It also started spreading to the other provinces
18 of Canada, excepting Quebec which already had
19 such a Movement since 1900. It is safe to say
20 that the Extension Department of Saint Francis
21 Xavier University provided some of the original
22 leadership in the development of credit unions
23 in all provinces with the exception of Quebec.

24
25 P15 Not only did our Credit unions emanate
26 from this educational background, but it was a
27 principle of the Antigonish philosophy that a
28 continuation of the educational programme was
29 essential for the proper functioning of these
30 credit unions. Provision for such a continuing

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from this educational background, but it was a
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continuation of the educational programme was
essential for the proper functioning of these
credit unions. Provision for such a continuing



programme will be found in credit union legis-
lation as well as in the actual operation of
the credit unions and their League.

Integrated Philosophy

P16 It is also well to point out that in
this Province credit unions have maintained the
philosophy of the Antigonish Movement. In this
concept there is no distinction made between
credit unions and other co-operatives. The
Credit Union Movement is considered an integral
part of the co-operative system, and like other
co-operatives it is considered to have a social
and educational as well as economic significance.
Hence credit unions are considered as co-opera-
tives with its own legislation, its specific
spheres of operation and its particular objectives,
but still a part of a total co-operative pro-
gramme as envisaged by the founders of the Anti-
gonish Movement.

(a) Number, Membership and Distribution

P17 From its early beginnings in 1933,
the Credit Union Movement in Nova Scotia has
gradually developed into a sound and healthy
Movement of substantial size. In 1937, which
is the earliest year of official consolidated
statistics, there were 71 credit unions with
12,000 members and assets of \$269,045. The
total amount loaned to members in that year was
\$374,924. In 1961, just twenty-five years later,



1 there are 210 credit unions with about 63,000
2 members and assets of just over \$17 million.
3 The total amount loaned during the year 1961
4 was \$11,369,460.

5
6 P18 In the early years the rate of growth
7 of our Credit Union Movement was rapid,
8 especially in the organization of new credit
9 unions and in the number of members. In more
10 recent years the rate of growth has somewhat
11 slowed down but nevertheless there is a sound
12 and consistent growth in all departments.

13 Organizational Growth

14 P19 In the first ten years of recorded
15 statistics the number of credit unions grew
16 from 71 to 219. Starting in the eastern counties,
17 the Movement spread to all parts of the Province
18 so that by 1946 the distribution of credit unions
19 was practically province-wide. In the next ten
20 years from 1946 to 1956 the net organizational
21 growth was very small, actually a net gain of
22 only three credit unions. New credit unions were
23 still being organized but we were also faced
24 with the problem of inactive and defunct credit
25 unions that were casualties of the war years and
26 the general changes in conditions in society.
27 Most of our credit unions were organized in
28 small rural communities which very often lost
29 in population between 1939 and 1946. These
30 credit unions had served their purpose and now had

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1 to be liquidated.

2
3 P20

4 Since 1956 and up to the present the
5 situation is not too different. We recognize
6 that we have almost reached the saturation
7 point as far as new credit unions are concerned.
8 We are also continuing to close out substantial
9 numbers of small credit unions, especially in
10 rural areas. Sometimes, too, several credit
11 unions are merged to meet the changing conditions
12 in our society. Paved roads, better transporta-
13 tion, and the development of new centres of
14 business makes it natural that credit unions
15 respond to these new conditions. This explains
16 why we have actually fewer credit unions in
17 Nova Scotia to-day than we had in 1956. Since
18 the organization of the first credit union in
19 Nova Scotia in January of 1933, there has been
20 a total of 319 charters issued as of the 30th
21 September, 1961. Of this number, 109 charters
22 have been cancelled. Small rural credit unions
23 accounted for 75 of these while the remaining
24 34 were made up of industrial, small towns and
25 other.

26 Membership

27 P21

28 The growth in membership has shown
29 consistent increases each year with the possible
30 exception of the years between 1954 and 1957
which shows little change. There are two reasons
for this. First of all this was a period of



Since 1955 and up to the present the situation is not too different. We recognize that we have almost reached the saturation point as far as new credit unions are concerned. We are also continuing to close out substantial numbers of small credit unions, especially in rural areas. Sometimes, too, several credit unions are merged to meet the changing conditions in our society. Paved roads, better transportation, and the development of new centers of business makes it harder than credit unions respond to these new conditions. This explains why we have actually fewer credit unions in Nova Scotia today than we had in 1955. Since the organization of the first credit union in Nova Scotia in January of 1900, there has been a total of 579 charters issued as of the 30th September, 1961. Of this number, 102 charters have been cancelled. Small rural credit unions accounted for 70 of these while the remaining 34 were made up of industrial, small towns and

Membership

The growth in membership has shown consistent increases each year with the possible exception of the years between 1954 and 1957 which shows little change. There are two reasons for this: the first is the period of



1 general house-cleaning of inactive accounts
2 when many accounts were dropped from the
3 membership because the amounts were exceedingly
4 small and the members inactive or their where-
5 abouts unknown. Secondly, the Credit Union Act
6 was amended to re-define a member as one who
7 had a fully paid-up share of five dollars.
8 This, too, removed many from the official
9 listed number of members.

10
11 P22 Growth as far as assets are concerned
12 has been very consistent over the years. This
13 also holds true for the total shares and de-
14 posits in our credit unions.

15 Distribution of Credit Unions

16 P23 The distribution of credit unions in
17 Nova Scotia extends from end to end of the
18 Province. All counties in the Province account
19 for credit union activity in varying degrees.
20 It would be our considered opinion that eleven
21 counties have a sufficient number to provide
22 service to the great majority of the residents.
23 Three counties are fairly well covered but there
24 is still a small potential of new organization,
25 probably another fifteen credit unions will be
26 the maximum potential in these counties. In
27 the remaining four counties the number of credit
28 unions is small in relation to the potential.
29 There is the possibility that another forty to
30 fifty credit unions can be eventually organized



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 unions is small in relation to the potential.
 There is the possibility of another forty to
 fifty credit unions can be eventually organized



1 in these areas. This largest potential for new
2 development is located along the south shore of
3 Nova Scotia and through the Annapolis Valley.

4
5 Types of Credit Unions

6 P24 The Credit Union Movement in Nova Scotia
7 is predominantly of a community nature, although
8 there are a number of credit unions serving
9 industrial, parish and other groups. In 1960
10 we had 208 credit unions which we classify as
11 active. Of these 104 were located in rural
12 communities. The remaining number were located
13 in urban communities and were classified as
14 follows:

Occupational and industrial	52
Parochial	14
Community urban	38

15
16
17
18 P25 While one-half of our credit unions are
19 of the rural community type it is interesting to
20 note that the urban credit unions of the various
21 types account for a much larger percentage of
22 the total membership and assets of all credit
23 unions in the Province.

24 For more detailed information on the
25 size, membership and distribution of credit
26 unions we refer you to Appendix Table 1, attached
27 to this Brief.

28
29 (b) Nature of Operations

30 P26 Basically all credit unions in Nova

...is located along the south shore of ... and through the Annapolis Valley.

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(b) Nature of Operations



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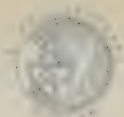
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1 Scotia are similar in their general operations.
2 However, there are slight differences to accommo-
3 date and be in harmony with the needs and desires
4 of the members which they serve. This is natural
5 since a credit union is a democratic organization
6 and is responsive to the wishes of the members
7 within the limits set by the Credit Union Act.

8 Rural Credit Unions

9
10 P27 Let us look first at our rural community
11 credit unions which is the largest single
12 grouping in the Province. By and large the
13 savings habits are different than in an urban
14 area. Income is not so frequent, there is not
15 the same convenience to make deposits as cash
16 income is not as great. As a result deposits
17 will be made less frequently and in all pro-
18 bability in small amounts on an annual basis.
19 Therefore, the growth in these credit unions
20 will not be as spectacular.

21 P28 Likewise there is a difference in the
22 credit needs of rural people. They have all
23 the legitimate needs for credit that their
24 brothers in town may have but along with these
25 they have a variety of other needs of a
26 vocational nature. These will include the
27 seasonal needs for credit to purchase seeds,
28 fertilizers, insecticides, etc. They also re-
29 quire credit for production purposes such as the
30 feeding of hogs, poultry and other livestock until



Scotia are similar in their general operations. However, there are slight differences in accordance with the needs and desires of the members which they serve. This is natural since a credit union is a democratic organization and is responsive to the wishes of the members within the limits set by the Credit Union Act.

Rural Credit Unions

Let us look first at our rural community credit unions which are the largest single grouping in the Province. By and large the savings habits are different than in an urban area. Income is not so frequent, there is not the same convenience to make deposits as cash income is not as great. As a result deposits will be made less frequently and on an irregular basis. Therefore, the growth in these credit unions will not be as rapid.

Likewise there is a difference in the credit needs of rural people. They have all the legitimate needs for credit that their brothers in town may have but along with these they have a variety of other needs of a vocational nature. These will include the seasonal needs for credit to purchase seeds, fertilizers, insecticides, etc. They also require credit for production purposes such as the feeding of hogs, poultry and other livestock until



1 marketing time. It would be our opinion; there-
2 fore, that a rural credit union, if it is to do
3 the job required of it, will need greater re-
4 sources per member than a credit union in an
5 urban area with the same membership. Unfor-
6 tunately our best run and most progressive
7 credit unions have not been able as yet to pro-
8 vide for all the credit needs of their members,
9 although in recent years the growth of our
10 rural credit unions gives us a great deal of
11 optimism.

P29

12 There is also another important
13 difference in our rural credit unions in that
14 rural people cannot repay their loans on the
15 same weekly or monthly schedule as those in
16 urban areas with a regular weekly or monthly
17 pay check. As a result of this the resources
18 of the average rural credit union are longer in
19 use by the same individual than in an urban area.

P30

21 Because of these different circumstances
22 the average rural member will make deposits
23 monthly or less frequently. His loans are
24 usually for larger amounts on the average since
25 he does have needs in excess of urban people;
26 and his repayments will be either monthly,
27 quarterly, half-yearly or a single payment upon
28 maturity.

P31

29 Again, because of circumstances, it is
30





1 common to find differences in the make-up of the
2 board of directors and communities. Because the
3 number of leaders is relatively small and
4 scattered over a wide area we find that the
5 average board in a rural credit union would be
6 made up of six to nine directors as compared
7 with from nine to twelve in urban areas. Very
8 often, too, the board, credit committee and
9 supervisory committees will meet jointly in
10 order to avoid some of the inconvenience of
11 getting out to meetings. This is an advantage
12 in so much as all elected officers have an
13 opportunity of discussing common problems in
14 their monthly meetings.

15
16 P32 There are other minor differences
17 between rural and urban credit unions such as
18 the difficulty of providing top-notch service.
19 But generally the disadvantage of these rural
20 credit unions are more than off-set by other
21 advantages, the most important of which, in
22 our opinion, is the traditional spirit of
23 neighbourliness and friendship that exists in
24 rural communities. This makes the idea of co-
25 operative activity through a credit union a
26 natural for them and provides an added opportunity
27 to discuss other common problems of the community.

28 P33 Urban Credit Unions

29 Urban credit unions have a number of
30 advantages. Regular pay cheques provide the

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board of directors and communities. Because the

number of leaders is relatively small and
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natural for them and provides an added opportunity
to discuss other common problems of the community.

Urban credit unions have a number of

advantages. Modern pay schedules provide the



1 opportunity for regular systematic savings,
2 with its potential for more rapid growth of
3 resources for the organization. It also
4 facilitates the lending department in as much
5 as repayments of loans are more frequent allowing
6 for a more rapid loan turnover, which in turn
7 permits the credit union to provide service
8 to a larger number of its members.

9
10 P34 The potentially larger membership makes
11 it easier to attract more leaders with capa-
12 bilities who are usually more conveniently
13 located and can give more attention to the
14 operation and promotion of the credit union.
15 There is also the advantage of being closer to
16 facilities for education, promotion and opera-
17 tional guidance, along with the availability
18 of persons skilled in these various fields.
19 The potential for a more rapid growth is also
20 an incentive in the urban areas and means that
21 such credit unions have a greater opportunity
22 to reach the point in their development where
23 there is less dependence on volunteer help.

24 P35 Industrial Credit Unions

25 The industrial type credit union has
26 both advantages and disadvantages. Payroll de-
27 duction, office space, the availability of
28 facilities and trained personnel can and do help
29 greatly in growth and development of a credit
30 union. There is the disadvantage though that



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Industrial Credit Unions

The industrial type credit union has both advantages and disadvantages. Payroll deduction, office space, the availability of facilities and trained personnel can and do help greatly in growth and development of a credit union. There is one disadvantage though that



1 usually the members live long distances from
2 the plant which makes it difficult to arrange
3 meetings of the boards and committees in such
4 a way as to assure that proper attention is
5 given to all aspects of the credit union's
6 affairs. However, this is overcome to some
7 extent by the fact that such groups can meet
8 more frequently even if for shorter periods.

9
10 P36 Despite the differences that may appear
11 between the various types of credit unions, there
12 is no major difference in the basic policies and
13 practices. Generally the members of all credit
14 unions emphasize the habit of thrift and wise
15 borrowing. Loans are made only to members and
16 the same policies are common to all credit
17 unions with slight variations to the limit that
18 may be loaned on character and the types of
19 security more readily accepted. Bookkeeping
20 is standardized with only minor changes made
21 because of size or particular situations.
22 Boards of directors meet monthly with special
23 meetings called on occasion for some urgent or
24 special matter. Credit Committees as a rule
25 hold a regular weekly meeting but all do meet as
26 often as it becomes necessary. The supervisory
27 committee is not so active which is unfortunate
28 because it is a vital committee and is supposed
29 to perform a very responsible function. All
30 credit unions hold an annual meeting which



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1 provides every possible opportunity for the
2 members to receive reports from the officers,
3 directors and committees, express their pleasure
4 or displeasure and elect those from among the
5 members to serve as directors or committee
6 members.

7
8 Preparation for Organization

9 P37 All credit unions are organized after
10 a period of study and preparation. In the early
11 years there was general insistence upon a period
12 of study through study groups of from three to
13 six months. In more recent years this has not
14 been possible to the same extent but nevertheless
15 there is still insistence on the part of League
16 organizers that those wishing to organize hold
17 a sufficient number of meetings to acquaint
18 themselves with the philosophy of credit unions,
19 the duties and responsibilities of the various
20 offices and committees and the general informa-
21 tion that is necessary for a sound and expanding
22 organization. Educational material is provided
23 for all such groups in whatever quantity is
24 necessary along with guidance and direction by
25 the League organization.

26 League Assistance

27 P38 Special and detailed assistance is
28 given to the Treasurer in the manner of book-
29 keeping, operational practices, suggestions for
30 further educational and promotional work, followed

28
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Preparation for Organization

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up by periodic visits from League staff to help with balancing, making reports, etc. As a matter of practice the League organizer will continue visiting such a treasurer and the other officers as long as they need this type of assistance.

P39

The duties and responsibilities are as set down in the Credit Union Act. These are explained to all potential groups during the preparatory stages and after organization it is general practice to arrange a short course with those involved to give them further information and guidance. Such short courses are a continuing part of the League's educational programme each year. These courses are further supplemented by week-end institutes, special series of meetings with boards and committees on a regional basis and other types of schools for advanced training.

Chapters

P40

Where groups of credit unions are conveniently located in proximity to each other we have organized chapters which meet monthly in an educational session. The subject matter discussed and studied is tailored to fit the particular needs of the credit unions in the area.

P41

Since the League is a federation of all the credit unions it is only reasonable to expect



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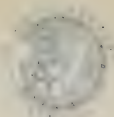
1 that it will be interested in the sound develop-
2 ment of credit unions. Therefore, its most
3 important function is to provide leadership,
4 training facilities and every assistance possible
5 to the credit unions. This assistance takes
6 various forms from the supplying of educational
7 literature, operational instructional manuals
8 to custom tailored promotional literature and
9 technical assistance with specific problems.
10 If professional information, such as legal
11 guidance, is required we attempt to make this
12 available.

13
14 P42 So that you may have an idea of the
15 type of educational assistance and material
16 that is made available to our credit unions
17 we present with this Brief an assortment of
18 some of the educational leaflets, pamphlets and
19 booklets in use.

20 (c) Structural Organization

21 P43 In general the structural organiza-
22 tion of the Credit Union Movement in Nova Scotia
23 is similar to that in other provinces and states.

24
25 P44 The base of the organization is, of
26 course, in the individual since it is a 'People's
27 Movement'. The individual members belong to the
28 local credit union which for the most part is of
29 the community type. The common bond is by virtue
30 of the fact that the member is a resident of the



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1 same small community, a member of the same
2 parish, an employee of the same industry or
3 of some other well defined area or group.

4
5 The Nova Scotia Credit Union League

6 P45

7 These local credit unions have feder-
8 ated themselves into a provincial organization
9 known as the Nova Scotia Credit Union League.
10 The League has been a natural step in the
11 development of the Movement. The first credit
12 union was organized in Nova Scotia in January
13 1933. By the end of 1933 several credit unions
14 located in close proximity to each other held
15 a meeting to exchange ideas on common problems.
16 By the end of 1934 these, plus several new credit
17 unions organized in the meantime, called an
18 official meeting for the purpose of setting up
19 an organization to speak in their behalf, to
20 co-ordinate educational efforts and to provide
21 other services needed. This was actually the
22 beginning of what we now know as the League.
23 In 1938 it was officially incorporated under a
24 Special Act of the Nova Scotia Legislature.

25 P46

26 In its original legislation the League
27 was designed exclusively as an educational body.
28 Its objects and purposes included the following:
29 (a) To promote the organization and develop-
30 ment of credit unions in the Province
of Nova Scotia, and to encourage co-
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The Nova Scotia Credit Union League

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In its original legislation the League was designed exclusively as an educational body. Its objects and purposes included the following:

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(b) To disseminate information regarding credit unions and their methods of organization and operation; and to foster by every lawful means the common good and welfare of credit unions;

(c) To improve the internal management of credit unions and to co-ordinate their operating methods and practices.

P47 In its first years the League was not a self-supporting organization. Practically all of the organizational work was done by the Extension Department of St. Francis Xavier University or under its direction. Its management and office help was also provided by the University. However, from the beginning the League did levy a small dues assessment on its credit unions to help defray operating expenses. As the credit unions grew in numbers and in size the League was able to assume an increasingly large share of its costs and by 1945 it was a completely self-supporting organization.

Printing Department

P48 With growth in the Movement naturally came other developments. Standardization of bookkeeping was always an objective. Very early in its operations it started to carry in stock the necessary books and record forms for credit unions which were imported from the CUNA Supply Co-operative in Madison, Wisconsin. This source



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1 of supply became very limited during the war
2 years and because of this it was decided
3 necessary that the League establish its own
4 small printing department about 1940. A small
5 Multilith was purchased along with other
6 necessary equipment to produce these standard
7 forms for the credit unions. This service was
8 set up as a department of the League and has
9 continued to provide this same type of service
10 along with others up to the present. Along
11 with standard bookkeeping forms, this department
12 does custom printing for credit unions as well
13 as carry a stock of educational literature of
14 all types. It is completely self-supporting
15 and has rendered an excellent service through-
16 out the years.

17
18 Deposit and Loan Department

P49

19 Another interesting and important
20 development in the Movement took place during
21 the war years on the League level. Because of
22 war-time conditions credit unions were faced
23 with increasingly large amounts of surplus cash.
24 Loans of the small personal type were not in
25 demand as before because of rationing and other
26 war-time restrictions. At the same time there
27 developed a demand for larger, long-term loans
28 for the acquisition of homes, aggravated to
29 quite an extent by the shift of population from
30 the rural areas to the urban centres which were

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Loans of the small personal type were not in
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quite an extent by the shift of population from
the rural areas to the urban centers which were



1 bustling with economic activity. Credit
2 unions were confronted with this demand and
3 were tempted to enter this field since money
4 was available. However, the League Board
5 studied this problem and did everything possible
6 to discourage credit unions from entering into
7 this type of business. A great amount of the
8 surplus funds were diverted to the purchase of
9 war bonds through an effort organized by the
10 League. However, this was recognized as but a
11 temporary arrangement. A better solution to
12 this problem must be found. After a great deal
13 of study, the League Board recommended, and
14 Convention approved, the idea of setting up
15 within the League another department which
16 would act as a depository for surplus funds
17 of credit unions. It was also decided that
18 these funds would be made available, first to
19 credit unions that might need to borrow from
20 time to time to meet seasonal or other peak
21 demands from their members, and secondly to in-
22 vest in first mortgage loans to credit union
23 members who wanted to buy, build or make major
24 renovations to their homes. Later on it was de-
25 cided to make loans to co-operative organizations.

26 P50 As a result of these decisions the
27 League Act was amended to provide additional
28 powers to the League to:

29 (a) Receive money on deposit from credit
30



unions and co-operatives;

(b) To loan money to its members and co-operatives at rates of interest to be determined by the League Board;

(c) To invest in bonds of a Trustee nature;

(d) To take security covering real or personal property to cover loans made by the League;

(e) To borrow or raise money;

(f) To do such other things as are incidental to the attainment of the objects and purposes of the League.

P51 This new department became known as the Deposit and Loan Department. It is still a vital part of the League and still continues to do the job designated for it when first set up in the early forties.

P52 In more recent years further changes in legislation have been made. In 1954 its Act of Incorporation was amended to provide for a share capital structure and was capitalized at five hundred thousand dollars, divided into fifty thousand shares with a par value of ten dollars each. Its membership was broadened to provide for membership by credit unions within the province, co-operatives incorporated under the provisions of the Co-operative Associations Act, 1948, or other co-operatives incorporated under the provisions of any general or special



1 legislation of the Province of Nova Scotia or of
2 the Parliament of Canada.

3
4 P53 At the present time the League member-
5 ship is made up of 207 credit unions and 55 co-
6 operatives of various types. Each member is a
7 shareholder and is entitled to send two voting
8 delegates to the membership meetings of the
9 League.

10 League Board and Committees

11 P54 The League is governed by a board
12 of directors of twelve, elected at annual
13 meeting for three-year terms. For the purpose
14 of electing directors, the Province is divided
15 into twelve geographical zones so as to assure
16 that all areas of the Province are represented
17 on the board of directors. At each annual
18 meeting the members from the various zones
19 where directors are retiring meet in a zone
20 meeting and agree upon a nomination to place
21 before the annual meeting. Usually the nomin-
22 ation put forward by the zone is elected
23 although the annual meeting could make another
24 choice if it so wished.

25
26 P55 The executive Committee is appointed
27 by the board and consists of three directors.
28 The functions of this committee are to act on
29 behalf of the board in cases of emergency arising
30 between board meetings and to perform such other

Registration of the Province of Nova Scotia or of
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unless it is defeated

The Executive Committee is appointed

by the board and consists of three directors.
The functions of this committee are to act on
behalf of the board in cases of emergency and in
between board meetings and to perform such other



specific functions as may be requested by the board.

P56

The Credit Committee consists of five persons appointed for a term of one year. The President and Managing Director are ex-officio members of this Committee, the other three being appointed by the board. Its responsibility is to consider applications for loans from credit unions, co-operatives and individuals for mortgages. The policy with respect to loans is set forth by the board from time to time and the Credit Committee operates within the framework of the policy.

P57

Meetings of the members are held once a year, usually during the month of June. Special meetings of the members may be called for some special purpose.

P58

The League Board of Directors meets quarterly as a general practice but on occasion it has met more frequently if circumstances make this necessary.

P59

The Executive Committee meets as often as deemed necessary but usually immediately prior to each board meeting to study and report on specific items for the board.

P60

The Credit Committee likewise meets quarterly but does on occasion meet more frequently



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League Services

Educational

P61

The most important functions of the League are those in the field of education and organization which are the main responsibility of the Educational Department. These functions include the following:

1. The organization of new credit unions and the instruction of the provisional officers and potential members.
2. Continuing educational programmes with officers, directors, committee members and managers to make sure in so far as this is possible that they are able to perform their duties to the fullest possible extent as well as to ensure the future growth and development of the credit union.
3. Seeking on behalf of credit unions beneficial amendments to the Credit Union Act from time to time to meet the changing needs of credit unions.
4. To prepare study materials for officers, including operational manuals, as well as educational and promotional literature for the general membership and potential members.
5. To provide guidance and technical assistance



- 1 to officers in all matters relating
2 to the proper functioning of the
3 credit union.
- 4 6. To make routine visits to credit unions
5 to check on their activities, again
6 to be satisfied that the Credit union
7 is operating according to the Credit
8 Union Act and doing its business
9 along well accepted business lines.
- 10 7. To maintain close liaison with the Registrar
11 of Credit Unions and the Government
12 Inspectors and to assist in any way
13 possible when problems arise.
- 14 8. To arrange for adequate bonding for
15 credit unions.
- 16 9. To assist credit unions with special pro-
17 jects such as advertising, direct
18 mailings to members, the preparation
19 of special literature, brochures, and
20 any other items that can reasonably
21 be done with League facilities.
- 22 10. To organize chapters of credit unions
23 to provide an opportunity for fre-
24 quent exchange of ideas on common
25 problems.
- 26 11. To provide such other information or
27 assistance that is requested from time
28 to time.



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 11. To provide such other information or
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 to time.
 The Deposit and Loan Department also has



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its specific functions. These include the following:

1. A safe and convenient depository for surplus funds with a fair return in interest.
2. A source of credit to meet the peak needs of credit unions when their own resources are insufficient to meet the demand.
3. A source of credit to co-operative organizations for expansion, additional working capital, or for production credit for farm members.
4. A chequing service on a corporate basis to the credit unions.
5. A service in mortgage loans to the members of credit unions for the acquisition or improvement of their homes.
6. A Stabilization Fund to facilitate the closing out of inactive credit unions and providing some degree of assurance that depositors will receive upon liquidation all funds standing to their credit in the books of the credit union.

P63 The services of our Printing Department are limited to the task of providing a convenient source of supply to credit unions of bookkeeping forms, educational literature and small items of



ALICE

The following are the sources of funds which include the

following:

1. A safe and convenient depository for

surplus funds with a fair return in

interest.

2. A source of credit to meet the peak

seasonal needs of the members.

3. Resources are insufficient to meet the

demand.

4. A source of credit to co-operative or-

ganizations for their working capital.

5. Working capital, or for production

credit for farm members.

6. A checking service on a corporate basis

to the credit unions.

7. A service in mortgage loans to the members

of credit unions for the acquisition

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1 equipment and office needs. It also provides
2 a very useful service to the League itself in
3 the printing of reports, circular letters,
4 forms and promotional material.

5
6 Services - How Financed

7 P64

8 All services of the Educational De-
9 partment are financed by an assessment placed
10 on each credit union on a per capita basis.
11 Each credit union that is a member of the League
12 is assessed \$1.00 per year for each adult member,
13 that is one over sixteen years of age and who
14 has at least one share of \$5.00 in the credit
15 union. In addition to this the credit union
16 is assessed at the rate of 50 cents for all
17 other accounts. From this source the League
18 expects to receive in this current year ending
19 the 30th April, 1962, the sum of \$53,000. It
20 also expects to receive another \$7,000 in mis-
21 cellaneous income for a total of \$60,000. With
22 this amount is paid the salaries of three full-
23 time and fully qualified field representatives
24 and their travelling expenses, plus the salaries
25 of those in the office. The itemized statement
26 of income and expenses for this department is
27 attached to this Brief for your more detailed in-
28 formation.

29 P65

30 Out Deposit and Loan Department is
self-supporting. Its funds are either out on
loan or invested in interest-bearing bonds



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which accounts for its principal source of income. After expenses are paid, the net earnings after allowing for depreciation and reserves are re-funded to the depositors as a rate of interest for the use of those funds during the past year. For the past several years the rates have been as follows:

On Share Capital 4 1/2%

On Call Deposits 2%

On 1 year Deposits 2 1/2%

On 3 year Deposits 3%

On 5 year Deposits 4%

On Guaranty Funds 3%

The complete details of the Income and Expenses of this department are also attached for your further information.

P66 Our Printing Department is likewise self-supporting. It buys or processes goods which in turn are sold to the credit unions with sufficient mark-up to defray operations. This is considered as a service department. The only financial interest we have in it is to avoid, if possible, it operating at a loss. Fortunately over the years it has been able to break even or do a little better. Again the details of its statement of operations is attached for your information.

League Growth - Financially

P67 The growth of the League financially

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funded for the deposits at a rate of interest
 for the use of those funds during the past year.
 For the past several years the rates have been

On Share Capital	1.00%
On 1 year Deposits	2.125%
On 3 year Deposits	3%
On 5 year Deposits	4%
On Government Bonds	3%

The complete details of the income and
 expenses of this department are attached for

our reporting Department is able to
 self-sufficient. It has no processes going
 which in turn are sold to the credit unions with
 sufficient margin to defray operations. This

only financial interest we have in it is to avoid
 if possible, it operates at a loss. Fortunately
 over the years it has been able to break even
 or do a little better. Again the details of the
 statement of operations is attached for your
 information.

Respectfully,
 The growth of the League financially



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has been consistent throughout and is proportionate to the growth of the Credit Union Movement generally. Cash and short-term receivables during the past three years have grown from \$305,000 in 1959 to \$508,000 in 1961; investments at par value have risen from \$633,000 to \$731,000; mortgages have grown slightly from \$1.24 million in 1959 to \$1.37 million in 1961. Fixed assets have grown from \$2.33 million in 1959 to \$2.88 million in 1961. By the end of the next fiscal year-end, 30th April, 1962, they will have risen to slightly over \$3 million.

P68 In the realm of liabilities our Share Capital has grown from \$196,000 in 1959 to \$240,000 in 1961; deposits of all types have increased from \$1.8 million to \$2.49 million in the same period. Reserves have grown from \$110,000 in 1959 to \$150,000 by 1961.

P69 While this growth is not spectacular nevertheless it is a sound and progressive growth in tune with the general growth of the credit unions which are affiliated with it.

Affiliations

P70 From its very early years there has been a very close relationship with the Credit Union National Association, CUNA. This was natural since it was through this organization



and is proper-

to be made in the future.

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1 and the attention of Mr. Bergengren, its first
2 Managing Director, that Nova Scotia received
3 its initial assistance in launching our Credit
4 Union Movement. In 1940 the Nova Scotia Credit
5 Union League formally became affiliated with
6 the Credit Union National Association as a
7 member. It has maintained its membership ever
8 since.

9 CUNA is an international organization
10 of credit unions and leagues covering many
11 countries, including Canada and the United
12 States. Its Board of Directors is made up
13 of delegates appointed by each league, the
14 number depending upon the membership of the
15 individual leagues affiliated with it. The
16 minimum representation is one director and the
17 maximum five from each league. Nova Scotia
18 is presently represented by three such
19 directors, elected by the League's annual meeting.

20 P71 In general CUNA provides the Leagues
21 with those services that cannot be provided
22 as conveniently on the average league level.
23 This includes technical training for league and
24 credit union officers, preparation of literature
25 expertly designed, arrangements for bonding on
26 a national and international basis, along with
27 other types of insurance. It also provides
28 the Movement with a programme of public relations
29 and advertising assistance.
30



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A1957

1 P72 Because of our affiliation with CUNA

2 we also have available to us the benefits of

3 Loan Protection and Life Savings insurance

4 through CUNA Mutual Insurance Society as well

5 as the services of CUNA Supply Co-operative.

6 The services procied by all of these organiza-

7 tions has been of great advantage to our League

8 and its affiliated credit unions.

9

10 P73 In recent years a number of Canadian

11 Leagues have organized the National Association

12 of Canada Credit Unions with the hope that

13 eventually it will provide for the Credit Union

14 Movement in Canada those services now being pro-

15 vided by CUNA either through its Head Office

16 in Madison or its branch office in Hamilton,

17 Ontario. It is hoped, too, that in a very few

18 years the present CUNA will become an inter-

19 national organization made up exclusively of

20 national associations.

21 P74 The Nova Scotia Credit Union League

22 like all others bears its share of the financing

23 of these bodies to which it is affiliated. To

24 CUNA we pay an annual assessment in dues at the

25 rate of nine cents per member. For the National

26 Association of Canadian Credit Unions our dues

27 assessment is \$264 for this current year. In

28 terms of the service received the cost involved

29 is quite small.

30



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through CUNA Mutual Insurance Society as well
as the services of CUNA Supply Co-operative.
The services provided by all of these organiza-
tions has been of great advantage to our League
and its affiliated credit unions.

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years the present CUNA will become an inter-
national organization made up exclusively of
national associations.

The New Scotia Credit Union League
like all others bears its share of the financing
of these bodies to which it is affiliated. To
CUNA we pay an annual assessment in dues at the
rate of nine cents per member. For the National
Association of Canadian Credit Unions our dues
assessment is \$100 for this current year. In
terms of the service received the cost involved
is quite small.



1 P75 Along with these two major bodies our
2 League is affiliated with the Nova Scotia Co-opera-
3 tive Union and maintains a close working liaison with
4 regional co-operatives, the Provincial Department
5 of Agriculture and the Adult Education Division of
6 the Department of Education.

7
8 (d) Composition, functions and responsibilities
9 of directors and management committees

9 P76 As stated previously it is customary to do
10 as much educational work as possible with a pro-
11 spective group before the actual organization of a
12 credit union. The amount of education will depend
13 upon the circumstances. Some groups will require
14 an extensive period of study while others can be
15 organized after just a few meetings.

16
17 P77 When the group is ready to be organized
18 an organizational meeting is held at which the
19 members elect a board of directors of not less
20 than five and a supervisory committee of three.
21 The Credit Committee shall be not less than three
22 members and may either be elected by the members
23 or at their option appointed by the board of
24 directors.

25 P78 The President, vice-president and secretary
26 are elected by the board from its own number within
27 ten days after they, the directors, have been
28 elected. At the same or subsequent meeting the
29 board shall appoint a treasurer who may be the
30 same person as the secretary. If the person appointed

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1 treasurer is a member of the board his appointment
2 is for one year only but is eligible for re-appoint-
3 ment. If the person appointed treasurer is not a
4 member of the board he shall hold office contin-
5 uously but may be dismissed by the board for
6 cause detrimental to the best interests of the
7 credit union. Again if the treasurer is not a
8 member of the board he may attend all board meetings
9 but may not vote.

10 P79 The Board of directors is responsible
11 for the general management of the affairs of the
12 credit union. Among the specific duties of the
13 board are the following:

- 14 (a) To admit and expel members;
- 15 (b) determine interest on loans consistent
16 with the Act and the by-laws and the
17 interest rate on deposits;
- 18 (c) fix the amount and form of the surety
19 bond on all officers and members
20 handling money;
- 21 (d) Recommend dividends;
- 22 (e) transmit to members proposed amend-
23 ments to the by-laws;
- 24 (f) fill vacancies on the board and credit
25 committee occurring during the year
26 until successors are elected or
27 appointed;
- 28 (g) fill vacancies on the supervisory
29 committee not filled by the remaining
30

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board are the following:

- (a) To admit and expel members;
- (b) determine interest on loans consistent
with the act and the by-laws and the
interest rate on deposits;
- (c) fix the amount and form of the security
bond on all officers and members
handling money;
- (d) recommend to members proposed amend-
ments to the by-laws;
- (e) fill vacancies on the board and credit
committee occurring during the year
until successors are elected or
appointed;
- (f) fill vacancies on the supervisory
committee not filled by the remainder



members of such committee within one month from date of vacancy;

(h) determine the maximum individual shareholdings and the maximum individual loan that can be made either with or without security;

(i) have charge of investments and to designate the person, who with the treasurer shall have joint control of securities;

(j) to perform such other duties as required by the Act or by-laws.

P80 Along with these specific duties we feel that it is the responsibility of the board to provide for the growth and expansion of the credit union by giving able leadership and providing for continuous membership education. The board shall meet at least once each month. Encouragement is given at all times to the idea of devoting a part of each monthly meeting to self-education of the board along with consideration to educational projects for the membership.

P81 The Credit Committee which shall be either elected by the members in annual meeting or appointed by the board has the general supervision of all loans. A majority of this committee must be present when a loan is under consideration and approval can only be given by the unanimous decision of those present. This committee shall



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Toronto, Ontario

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1 meet as often as necessary after due notice of
2 each meeting has been given to each member thereof.

3
4 P82 All loans must be approved by the committee
5 before they can be made with the exception that
6 boards of directors may authorize the treasurer to
7 grant loans to members that are fully secured by
8 the member's savings in the credit union or which
9 are otherwise secured by bonds or securities of
10 the Government of Canada or the Province. Such
11 loans made by the treasurer must be reported to
12 the next meeting of the credit committee.

13 P83 The supervisory committee is considered
14 to be the watchdog of the credit union. Its
15 responsibility is to make a periodic examination
16 of the books and records of the credit union and
17 to satisfy themselves that the credit union is
18 operating in accordance with the Act and by-laws,
19 and that the officers, committees and management
20 are properly carrying out their assigned respon-
21 sibilities and duties. The committee has wide
22 powers, including the suspension of officers if
23 such action is deemed to be necessary.

24
25 P84 No member of the credit union is eligible
26 to be elected or appointed treasurer, director,
27 or a member of the credit or supervisory committee
28 if he is in arrears on any loan or other contract
29 with the credit union for a period of three months
30 or more. The board of directors shall declare vacant

All loans must be approved by the committee

boards of directors may authorize the treasurer to grant loans to members that are fully secured by the member's savings in the credit union or which are otherwise secured by bonds or securities of the Government of Canada or the Province. Such loans made by the treasurer must be reported to the next meeting of the credit committee.

The supervisory committee is constituted

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No member of the credit union is eligible

to be elected or appointed treasurer, director or a member of the credit or supervisory committee if he is in arrears on any loan or other contract with the credit union for a period of three months or more. The board of directors shall decide whether



1 the office of treasurer, director or member of
2 the credit or supervisory committee if the holder
3 of such office is in arrears on any loan or other
4 contract with the credit union for a period of
5 six months or more.

P85

6 For the most part the treasurers of our
7 credit unions serve on a voluntary basis without
8 remuneration. A few of the large credit unions
9 have full-time paid personnel but the vast majority
10 have treasurers who devote their time and talents
11 to the job of managing credit unions on a part-
12 time basis with a part-time salary or gratis.
13 In this latter group it is customary to give the
14 treasurer an honorarium at the end of the year as
15 a part of the distribution of surplus.

P86

16 The duties and responsibilities of the
17 treasurer are the usual duties of the manager of
18 any business. It is his responsibility to manage
19 the day-to-day operations of the organization, to
20 keep accurate records, to prepare reports to the
21 board and membership and the usual routine duties
22 of his office. Along with these ordinary duties
23 it is natural that the treasurer provide leadership
24 to the board and credit committee as well as to
25 the membership in matters of public relations,
26 education and policy-making.

P87

27 The treasurer does not make the policies
28 of the credit union or arbitrarily decide on its
29
30



1 education programme. But because of his knowledge
2 he is in a key position to know the needs of the
3 members, the potential of the credit union in
4 matters of service and the ability of the credit
5 union both present and for the future. This being
6 the case it is natural that one would expect the
7 treasurer to give the board and committees the
8 benefit of his experience by making suggestions and
9 recommendations. The final decision on all matters
10 of policy or the inauguration of programmes or
11 projects that involve the expenditure of funds
12 rests with the board of directors.

13
14 P88 His knowledge of individuals is also
15 of great value to the credit committee. Since
16 the character of the borrower is so important in
17 the decisions of the credit committee, it is most
18 often the case that the treasurer knows the in-
19 dividual, his personal habits, and his ability to
20 pay much better than the average credit committee
21 member. It is natural, therefore, that a good
22 credit committee would depend to some extent for
23 information from the treasurer before making a
24 final decision on an application. This is
25 particularly true in so many cases where the in-
26 dividual may not be well known to the members of
27 the credit committee.

28 P89 Generally speaking this system of internal
29 organization has worked out extremely well. First
30 of all, it provides ample room for the democratic



1 functioning of the organization which is a basic
2 principle of any co-operative. This is done through
3 the annual meeting where each member is entitled
4 to one vote and is encouraged to attend such
5 meetings to exercise the privilege of voting as
6 well as discussing and debating the affairs of
7 the organization.

8
9 P90 Then, too, it also provides for the in-
10 volvement of a substantial number of individuals
11 in the actual operation either as members of the
12 board or committees. Each individual on the board
13 or committees has a responsibility and is encouraged
14 to accept this as a member of a team. The fact
15 that a number of members participate continuously
16 throughout the year not only safeguards the demo-
17 cratic ideal, and lessens the danger of a 'one
18 man' operation, but just as important it provides
19 an excellent opportunity for those individuals
20 to gain a practical knowledge of business affairs,
21 decision making, leadership skills in communica-
22 tion and many other educational advantages that
23 make for better citizenship.

24 P91 This internal organizational set-up is
25 also efficient from the business point of view as
26 can be witnesses by the growth and development of
27 the Credit Union Movement both here and abroad.
28 The record of achievement in our opinion is a
29 tribute to the credit union idea itself as well
30 as to the foresight of those who decided upon the



1 form in which it now finds itself.

2
3 P92

4 On the League level the organizational
5 set-up is quite similar. Membership is on a
6 corporate basis rather than the individual with the
7 democratic idea preserved through a system of
8 delegate control. Each member of the League is
9 entitled to be represented at League meetings by
10 two delegates who exercise the powers of the members
11 at these meetings. These delegates elect twelve
12 members of credit unions as a board of directors
13 for terms of three years with one-third of the
14 board retiring each year. These may be re-elected
15 or replaced depending upon the wishes of the
16 members.

17
18 P93

19 The duties and responsibilities of the
20 League board are not too different from those of
21 the credit unions that make up its membership.
22 They are charged with the responsibility of directing
23 the general affairs of the organization which is
24 representative of credit unions in the Province.
25 It is the duty of the board to employ management
26 and direct that it carry out the policies, pro-
27 jects and directives of the board. It has specific
28 duties which are outlined in the League Act, a
29 copy of which is attached.

30 P94

31 The greatest responsibility this board
32 has is to be responsive to the wishes of the Move-
33 ment as expressed by the delegates at the annual



meeting. This means providing for the educational needs of the credit unions, acting in their behalf on matters of legislation, maintaining a good public relations and all other things that are involved in spreading the credit union idea in an efficient manner through the Province.

P95 The Nova Scotia Credit Union League

is of substantial size doing a large volume of business and operating in several fields. The fact that it has been able to do this successfully, and we think fairly effectively, again attests to the fact that co-operation in business is possible and that, as Dr. Coady has stated some years ago, "man can do ten times what he thinks he can". Ordinary people with little or no formal training in the art of business administration have been able to manage and direct this growing Movement in an admirable fashion. They learned the principles first and became dedicated to the idea. By doing the actual work they learned the details and became more mature in the judgments that they were continuously called upon to make. With growth and the ability to provide for the costs of training, the Movement, largely through the League and CUNA, has been developing the courses and schools to provide for more advanced and skilled training for officers both on the elected level as well as those in the field of management. We have made a start in this latter field in Nova Scotia with the inauguration



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thoroughly called upon to make. With growth and the ability to provide for the costs of training, the system, instead of being a burden, has been developing the courses and schools to provide for more advanced and skilled training for officers



1 in September of 1961 of the Atlantic Regional
2 Credit Union School designed primarily for career
3 personnel. This is a course spread over three
4 years with two weeks of on-campus training each
5 year. The teaching staff is recruited largely from
6 the University supplemented by others from outside
7 the University with special skills and experience.
8 This kind of school provides training for credit
9 union personnel and League staff who, in turn, can
10 more expertly provide courses on the local level
11 for volunteers.

12 13 II. LEGISLATION AND SUPERVISION

14 (a) Comments on Legislation

15
16 P96 The first enactment of credit union
17 legislation was made by the Nova Scotia legislature
18 in 1932. It was prepared with the assistance of
19 Mr. Roy F. Bergengren, an experienced credit
20 union organizer from the United States, who
21 patterned it to a large extent after the credit
22 union legislation of the State of Massachusetts.
23 From 1933 on, as the idea spread to the other
24 provinces, the Nova Scotia Act was used somewhat
25 as a guide for new enactment across Canada.

26 P97 Basically the legislation has been quite
27 similar in most if not all provinces. Any major
28 changes have been made in recent years as more and
29 more provinces are revising their legislation to
30 provide new and/or larger credit union developments

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as well as generally changing economic and social conditions among the members.

P98

Generally speaking our Credit Union Act in Nova Scotia has been satisfactory. Amendments have been made from time to time to improve it and these have been made, almost without exception, on the request of the League. No doubt further amendments will be made as the need arises.

P99

While our Act is generally satisfactory, it is certainly not perfect and no doubt could be improved. In our efforts to improve our legislation we feel that we have to be careful that we do not over-emphasize the aspects of service and business efficiency at the expense of adequate control by boards and committees. It is important that credit unions provide service that will compare favourably with other agencies and institutions, but at the same time it is necessary to avoid provisions that will detract from the responsibilities that boards and committees now have in the government of the credit union.

Suggested changes in Legislation

P100

To provide better and more efficient processing of loan applications we would suggest that provision be made in our Act for the appointment of loan officers who would have the authority to approve loans, probably within certain limits, without the prior approval of the credit committee.

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1 Such a person would be appointed by the board of
2 directors or the credit committee and would be re-
3 sponsible to the credit committee for the proper
4 discharging of his duties.

5
6 P101 We also feel that the Supervisory Committee
7 in its present form is not satisfactory. Theoretic-
8 ally, it is an important committee, but in actual
9 practice, at least in Nova Scotia, it is not per-
10 forming its functions adequately enough in relation
11 to the responsibility that is placed upon it. It
12 is our opinion, we think shared by many, that in
13 most cases the responsibilities and the duties
14 prescribed for this committee are far greater than
15 one can reasonably expect them to fully discharge.
16 In the small credit unions it is often difficult
17 to obtain persons qualified to perform the duties
18 of this committee. In the larger credit unions it
19 is difficult to find the qualified personnel who
20 can spend the time that would be necessary to
21 adequately discharge their responsibilities. At
22 the same time the functions of this committee must
23 be performed as a safety measure. It is our
24 opinion that this important function can be done
25 by making it compulsory that all credit unions
26 with assets beyond a certain limit be audited by
27 an independent and qualified auditor each year.
28 Such a provision is in our Credit Union Act and
29 becomes effective when a credit union has reached
30 assets of \$200,000. If necessary to proper safety



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A1970

1 we would suggest that the limit might be lowered
2 somewhat.

3
4 P102 For credit unions in the smaller asset
5 range we feel that proper safety can be had by
6 more frequent government inspection, which in-
7 spection would compare with an audit.

8 P103 In view of the fact that there is a value
9 in having some internal inspection or examination,
10 we would suggest that the supervisory committee
11 be retained but that its duties be less exacting
12 and require less qualifications and time on the
13 part of its members so that there would be less
14 excuse for such a committee not performing its
15 proper function. We suggest, too, that considera-
16 tion be given to the idea of having this committee
17 appointed by and responsible to the board of
18 directors.

19
20 P104 A final suggestion for improvement in
21 legislation is that representatives of the pro-
22 vincial departments concerned, the leagues and
23 their national organization be encouraged to meet
24 periodically to review current legislation and
25 consider amendments that may be suggested to the
26 respective authorities for enactment. This would
27 help all areas have the benefit of each other's
28 thinking and it would be a forward step towards
29 uniformity that could be of benefit to the Movement
30 itself, the government departments and the leagues.

It is also true that the first...

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help all areas have the benefit of each other's
experience and it would be a forward step towards
uniformity that could be of benefit to the movement
itself, the government departments and the people



(b) Organization, Responsibility

Supervisory Authority

P105

The supervision of credit unions in Nova Scotia is provided by the Provincial government. The Governor in Council for this purpose has appointed a Registrar whose duty it is to enforce compliance with the Credit Union Act and any regulations made thereunder. The Governor in Council has also divided the province into zones and has appointed an Inspector of Credit Unions for each of these zones. It is the duty of the Inspector to inspect, enquire and examine into the affairs of the credit union and to perform such other duties as may be required by the Minister.

P106

The service that is provided by the inspectors of credit unions in this province is good. They attempt to inspect every credit union at least once a year and usually this objective is met. Very often additional inspections of particular credit unions will be made if it is thought desirable. We feel, too, that the type of inspection which they do is excellent, as it covers all aspects of the credit union's operations. Their standard inspection report, a copy of which is attached, is an indication of the many important details covered in the course of examination.

P107

The volume of work that is involved in making a complete examination of each credit union

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The supervision of credit unions in Nova

Supervision of Credit Unions

(b) General supervision of credit unions



Nethercut & Young

Toronto, Ontario

A1972

1 is great and very time consuming. As credit unions
2 get larger it is natural that more work and time
3 is involved and it will be necessary that addi-
4 tional inspectors be added from time to time. At
5 present there are three inspectors in the province.
6 While these inspectors have been able to complete
7 their examinations of credit unions on an annual
8 basis, it is not possible for them to find the
9 time to formally present their reports to the
10 boards of directors and discuss with these boards
11 their findings. We think this is unfortunate
12 because immediately after an inspection would be
13 the opportune time to meet with the board and
14 committees to go over and explain the report,
15 especially those parts of it which showed any
16 weakness in the credit union's operations. To
17 be able to do this it would be necessary that
18 additional inspectors be hired.

P108

19 It is our opinion also that the supervision
20 of credit unions would be even more satisfactory
21 and effective if more time could be devoted to the
22 administration of this service. Under the present
23 set-up the Registrar is extremely busy as he is
24 engaged in a number of important and highly respon-
25 sible functions in government service. These
26 other duties make it impossible for him to devote
27 the time to credit union supervision that he would
28 like and which would be desirable for the Move-
29 ment. The ideal would be for the government to
30



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Nethercut & Young

Toronto, Ontario

A1973

1 establish a department of credit unions and
2 co-operatives under which credit union super-
3 vision would naturally come. Possibly the new
4 Department of Finance and Development announced
5 recently by our Premier would be the next logical
6 department to be responsible for the supervision
7 of credit unions. The Credit Union Movement is
8 actually a people's programme designed to better
9 the living standards of our people by its various
10 means and since it touches so closely the
11 development of some of our most basic industries,
12 such as agriculture and fishing, it is important
13 that every effort be made to use its facilities
14 in every possible way to foster and promote a
15 better economy for our people. The Credit Union
16 Movement can make a significant contribution to
17 agriculture, fishing, lumbering, and other
18 small industries if it can be vigorously promoted
19 and directed. Further well organized and directed
20 assistance from government in this respect would
21 reflect favourably on our total economy.

P109

22
23 Ever since the beginning of the Credit
24 Union Movement in Nova Scotia, the provincial
25 government has provided an inspection service to
26 our credit unions without charge. We appreciate
27 this very much. We think it is the way it should
28 be because of the significant job that credit
29 unions are doing and also because of the fact that
30 it is a self-help Movement involving several



1 thousands of people who spend a large amount of
2 their time working voluntarily as credit union
3 officers without any thought of remuneration.
4 Since such a large number of our people are so
5 anxious to do their part, we feel that it is only
6 right that government also provide the necessary
7 supervision and encouragement to these people
8 without any charge to their organizations.

9
10 (c) Internal Control and Safety Measures

11 P110 The credit unions of Nova Scotia, as in
12 most areas, have a very comprehensive system of
13 controls and safety measures designed for the
14 protection of the organization's depositors.
15 This system includes the following:

- 16 1. Bonding: Every credit union in the pro-
17 vince must have all persons handling
18 funds bonded against loss due to dis-
19 honesty and unfaithful performance of
20 duties in minimum amounts as set forth
21 in the Act. Most of our credit unions
22 carry a blanket bond, popularly known as
23 Blanket Bond 576 which covers the credit
24 union against practically all loss ex-
25 cept those caused by what might be called
26 poor management, such as failure to collect
27 interest or over-expenditure.
- 28 2. The supervisory committee: Although this
29 committee is not as active and effective as
30 we would like to see it, nevertheless it



1 does perform some of its functions.
2 Some credit unions have an excellent job
3 performed by this committee. The fact
4 that it exists, and that it has the
5 authority to examine the books and records
6 at all times is a deterrent against dis-
7 honesty on the part of those handling the
8 funds of the credit union.

9 3. The Board of Directors: This board meets
10 monthly, receives reports including the
11 financial statement of the treasurer, which
12 is analyzed. It also checks on delinquency
13 and very often has a special committee
14 to deal with delinquent loans. It sets
15 the lending policy and receives reports
16 periodically from the credit committee.

17 4. Independent Audits: All credit unions with
18 assets in excess of \$200,000 must have an
19 annual audit made by an auditor who is
20 qualified and approved by the Registrar
21 of Credit Unions.

22 5. Government Inspection: The inspectors of
23 credit unions made an annual examination
24 of each credit union. The examination of
25 those with assets of less than \$200,000
26 is so complete that it could be classified
27 as an audit. Along with this, credit
28 unions are required to send a copy of
29 the monthly financial statement to the
30 inspector. This is an assurance that



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 the monthly financial statement to the
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1 the bookkeeping is kept up-to-date and
2 that all the books are in balance.

3 6. The Annual Meeting: Each year the members
4 in annual meeting hear reports from the
5 officers and committees which they are
6 able to analyze and discuss. It is the
7 privilege of the members to elect officers
8 and to demand a high standard of opera-
9 tion from the officers, directors and
10 committee members.

11 7. The Credit Committee: All loans must be
12 approved by the credit committee except
13 those which are self-secured. The approval
14 of the committee must be unanimous by
15 all those present at the meeting.

16 8. Loss Prevention Services: A special depart-
17 ment of CUNA is assigned to this particular
18 aspect of credit unions. From this de-
19 partment comes information and guidance
20 to credit union officers, especially
21 supervisory committees, on all aspects of
22 safety, including the bonding programme.
23 This programme is promoted by the leagues.

24 9. The League: While the league staff has no
25 authority to examine and inspect credit
26 unions, except on invitation, neverthe-
27 less, the League staff is continuously
28 making visits, providing technical
29 assistance and discussing with the board
30 observations they have made or information

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9. The League: While the league staff has no authority to examine and inspect credit unions, except on invitation, nevertheless, the league staff is continuously making visits, providing technical assistance and discussing with the board members they have made or information



1 they have obtained from the report made
2 by the Inspector of Credit Unions.

3 10. Stabilization Fund: The League has a fund
4 which is designed to facilitate the
5 liquidation of defunct credit unions and
6 to make it possible that the depositors
7 will receive from a credit union, if it
8 must liquidate, one dollar for every
9 dollar they have placed to their credit
10 in the credit union. This fund does not
11 guarantee this but so far no depositor
12 that we know of has ever lost any of
13 the money he placed in a credit union.
14 If the credit union cannot repay dollar
15 for dollar from its own resources, it
16 is quite likely that the Stabilization
17 Fund will provide the additional re-
18 sources.

19 P111 As far as safety is concerned the Credit
20 Union Movement has had an excellent experience.
21 The officers of credit unions and the League, as
22 well as other leaders, are very conscious of
23 this and everything possible is done to make sure
24 that the proper safety measures are continuously
25 in effect. The record of the Credit Union Movement
26 in Nova Scotia will speak for itself in this re-
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29
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III. ASSETS

P112

The assets of credit unions in Nova Scotia are made up of the following items in order of amounts in each classification: loans; cash; deposits with the League, Guaranty Fund on deposit with the League; investments; real estate; furniture and fixtures and other assets. The growth in assets is fairly consistent, showing an annual growth of from about 8 per cent to 10 per cent. The rate of growth is predominantly determined by the rate of the members' savings in shares and deposits. As a general rule the Credit unions rely upon their own resources, which for the most part are the shares and deposits of the members, for the accumulation of assets. The largest single asset of the credit union are the loans outstanding to its members. This is according to the philosophy of the Credit Union Movement.

(a) Cash and Liquid Reserves

P113

The liquid assets are made up of cash, investments, deposits and guaranty funds with the League. There is no requirement in the Credit Union Act on liquid reserves. It has been the practice of the League and the government inspectors to encourage credit unions to keep 20 per cent of their assets in liquid form. We have recommended that cash account for about 5 per cent of assets

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1 and the remaining 15 per cent be made up of other
2 investments and deposits with the League. By and
3 large, the credit unions have followed this advice
4 quite closely as you will notice from the con-
5 solidated balance sheet for the past number of
6 years. Such liquid assets during the past four
7 years have ranged from 17.9 per cent to 20.22 per
8 cent.

9
10 (b) Investments

11 P114 The investments of credit unions listed as
12 liquid assets are for the most part made up of
13 shares of the Nova Scotia Credit Union League held
14 by credit unions. At the 30th September, 1961,
15 credit unions in Nova Scotia had \$469,666 in
16 investments, of which about \$300,000 was represented
17 by League shares. Although these shares are in-
18 tended to be the permanent capital of the League,
19 nevertheless they may be withdrawn, provided that
20 not more than 10 per cent of the paid-up capital
21 may be withdrawn in any one year. In actual
22 practice these investments are on demand and
23 there is not much likelihood that a request for
24 a demand from a credit union would not be honoured.
25 The other investments held by credit unions would
26 be bonds of a trustee nature and could be con-
27 verted to cash at any time.

28
29 P115 The deposits which credit unions have
30 with the League are made up of Deposits on demand



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1 and term deposits. Demand deposits, including
2 Guaranty Fund, amount to about \$1 million. The
3 remaining deposits have their demand deferred
4 for three or five years.

5 P116

6 To assure that funds are readily avail-
7 able to credit unions as they need them it is
8 the practice of the League to maintain a port-
9 folio of investments that can be converted to
10 cash at any time. At present the investments of
11 the League in bonds and stocks amount to about
12 three-quarters of a million dollars. Along with
13 this the League has a line of credit with the
14 bank which can be used to meet any peak demands.

15 P117

16 To further assure the availability of
17 funds, the Credit Union Act has provisions whereby
18 the credit union may borrow. Upon the authority
19 of the board of directors, and the approval of
20 the Registrar, a credit union may borrow up to
21 25 per cent of its share capital, deposits and
22 surplus accounts. With the approval of the
23 members and the Registrar of Credit Unions, a
24 credit union may borrow up to 50 per cent of
25 capital, deposits and surplus accounts.

26 P118

27 (c) It is our opinion that the cash and
28 liquid reserves of our credit unions in Nova Scotia
29 are adequate to meet more than any normal demand
30 that we can anticipate. We feel that the borrowing
powers of the credit unions, supplemented by the



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 liquid reserves of our credit unions in Nova Scotia
 are adequate to meet more than any normal demand
 that we can anticipate. We feel that the borrowing
 powers of the credit unions, supplemented by the



1 borrowing powers of the League, are adequate to
2 meet emergencies beyond what could be considered
3 a normal demand. In view of the satisfactory ex-
4 perience we have had we have no suggestions to
5 make to improve the present policies. See
6 Appendix for further detailed information.

7
8 Investments

9 P119 A look at the consolidated balance sheet
10 of credit unions in Nova Scotia would indicate
11 that the total amount held in investments is
12 relatively small. The credit Union Act limits
13 each credit union to the types of investments it
14 can purchase. These are the shares and deposit
15 receipts of the League, and any legal investments
16 authorized by law for trust funds in Nova Scotia.
17 Outside of investments with the League, the most
18 common investments are bonds of the Government of
19 Canada or of the Province of Nova Scotia, and
20 debentures of trust companies and savings and
21 loan associations. The amount that is involved
22 in our opinion is insignificant and will remain
23 so since credit unions believe that its greatest
24 investment should be in the form of loans to its
25 members.

26
27 Loans and Mortgages

28 P120 (a) It is general practice and good credit
29 union philosophy that all loans be made for
30 provident and productive purposes. It is also



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(a) It is general practice and good credit
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1 practice and philosophy that preference be given
2 to the small borrower, Great emphasis is placed
3 upon the character of the borrower. This is
4 determined by his record in the credit union
5 both as to his habits on savings as well as
6 his record for promptness in the repayment of
7 past loans, along with the general knowledge of
8 the credit committee as to his standing in the
9 community.

10
11 P121 The classes of borrowers that are pre-
12 ferred are those whose need for credit is greatest,
13 who will benefit from it and who may have diffi-
14 culty getting credit from other sources at
15 reasonable rates of interest.

16 P122 The average loan varies from one Credit
17 union to another depending upon the need for
18 credit and the credit union's ability to meet
19 the demand. We do not have at this time the
20 average for the province but from our experience
21 in checking with individual credit unions we find
22 that this ranges from \$200 to over \$500. As a
23 general rule, too, we find that about one-half of
24 the members are borrowers at a given time.

25
26 P123 The term of loans in credit unions is
27 largely determined by the Credit Union Act. Our
28 Act limits a credit union to 25 per cent of its
29 capital and deposits in loans whose term is for
30 more than three years. Because of this it is



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capital and deposits in loans whose term is for
more than three years. Because of this it is



1 general practice for credit unions to discourage
2 most applications where the term requested is more
3 than three years. While we do not have any
4 figures to substantiate our opinion, we would
5 judge that the average term is between twelve
6 and fourteen months.

7
8 P124 Several standards are used in evaluating
9 credit risks. First of all the character of the
10 borrower is appraised. Next the credit committee
11 will consider the purpose of the loan and decide
12 whether or not this loan, if granted, would be
13 of benefit to the borrower or his family. Finally,
14 the committee will consider the ability of the
15 borrower to repay. Those are the three main
16 standards in use by credit committees to appraise
17 and evaluate the credit risk. If any of these
18 are not what they should be, it is customary to
19 interview the applicant in more detail and, if
20 the case is a worthy one, to attempt to work out
21 some arrangement that will be mutually satis-
22 factory to the borrower and the credit union.

23 P125 At times a credit union finds that its
24 demand for loans is greater than its resources.
25 Several procedures are followed. First of all, a
26 good credit union in such cases will borrow
27 from the League or a bank to supplement its
28 resources. Secondly, it may make a special effort
29 to encourage greater savings on the part of its
30 members. Thirdly, it may and sometimes has to



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1 place a limit on its maximum loan. This limit is
2 usually set as an amount over and above the
3 member's savings in the credit union. Any one
4 or all of these efforts may be used by a credit
5 union depending upon the circumstances.

6
7 Mortgage Loans

8 P126 The official report of the Registrar
9 of Credit Unions for 1961 shows that credit unions
10 have outstanding in Mortgage Loans the sum of
11 \$960,165. An examination of the balance sheets
12 of the local credit unions indicates that this
13 total is accounted for almost completely by ten
14 of the largest credit unions in the province. In
15 many cases the loans included in this total are
16 not, strictly speaking, of a long-term nature,
17 that is over a term of five years. In many cases
18 mortgages are taken as security for personal loans.

19
20 P127 It has been the policy of the League to
21 discourage the idea of making long-term mortgage
22 loans. However, there is a continuous pressure
23 in the credit unions for home building loans and
24 in many cases it is difficult for credit unions
25 to ignore the demand completely. The League
26 does offer some assistance in this field but even
27 at that the problem of credit for home purposes
28 is beyond the resources of the Credit Union Move-
29 ment.

30 P128 (b) Under the Credit Union Act a director,

place a limit on the maximum loan. This limit is usually set as an amount over and above the members' savings in the credit union. Any one or all of these efforts may be used by a credit union depending upon the circumstances.

Mortgage Loans

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2 committee can borrow to the extent of his
3 savings in the credit union plus the value of
4 stocks or bonds of the Government of Canada or
5 of Nova Scotia, assigned to the credit union as
6 security under the same procedure as other members.
7 If his loan is in excess of his savings plus
8 such stocks and bonds his application must be approved
9 by the unanimous vote of a majority of the credit
10 committee, two or more directors and one member
11 of the supervisory committee sitting together,
12 the officer, director or member applying for the
13 loan not being present when the vote is taken.
14 This is a penalty placed upon the officer as an
15 assurance to the members that they will not have
16 the opportunity of taking advantage of the credit
17 union by virtue of their position.

P129

18 (c) The responsibility for credit de-
19 cisions rests completely with the local credit
20 union. The central or League has no authority to
21 interfere in the operations of the local credit
22 union unless it is invited to do so by the
23 officers of the credit union. The League likewise
24 feels that this is a responsibility of the local
25 credit union and would be reluctant to detract
26 from it.

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27
28 (d) The most common type of collateral
29 taken by credit unions in this province is a co-
30 maker. Other types of security are taken such as



officer or a member of the credit or supervisory committee can borrow to the extent of his savings in the credit union plus the value of stocks or bonds of the Government of Canada or of Nova Scotia, assigned to the credit union as security under the same procedure as other members. If his loan is in excess of his savings plus such stocks and bonds his application must be approved by the unanimous vote of a majority of the credit committee, two or more directors and one member of the supervisory committee sitting together. The officer, director or member applying for the loan not being present when the vote is taken. This is a penalty placed upon the officer as an assurance to the members that they will not have the opportunity of taking advantage of the credit union by virtue of their position.

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(d) The most common type of collateral taken by credit unions in this province is a co- Other types of security are taken when



1 chattel mortgages; first mortgages on real estate;
2 assignments of life insurance; pay-roll assign-
3 ments and any other security satisfactory to the
4 credit committee.

5
6 P131 (e) There is no significant difference
7 in lending practices from one region to another.
8 In rural communities there has been a substantial
9 number of loans made where the repayment schedule
10 called for quarterly, half-yearly or yearly pay-
11 ments but this is rapidly changing in recent years.

12 P132 The rate of interest that credit unions
13 charge have varied from 6 per cent to 12 per
14 cent per annum. There is a very definite trend
15 in credit unions to-day toward the accepted rate
16 of 12 per cent and this is encouraged by the
17 League and CUNA. Some credit unions use two
18 rates; one would be the standard rate of 12 per
19 cent for all loans up to a certain maximum
20 which varies from \$200 to \$1,000. The second
21 rate, commonly 6 per cent, is charged on the ex-
22 cess amount over the maximum. The purpose of
23 this is to accommodate the larger borrower but
24 it is discouraged and credit unions are now
25 gradually shifting from this to the standard re-
26 commended rate of 12 per cent or 1 per cent per
27 month on the unpaid balance.

28
29 P133 It is often difficult to compare the rates
30

month on the unpaid balance.

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In rural communities there has been a substantial

in lending practices from one nation to another.

(e) There is no significant difference

credit committee.



1 of interest charged in a credit union with the
2 rate for a similar loan from other institutions.
3 For comparison's sake, we treat as interest all
4 the costs that a borrower pays for the use of a
5 sum of money for a given period of time. From
6 the limited research we have done we find that the
7 maximum rate that a credit union can charge,
8 that is 12 per cent per annum, compares favourably
9 with any other lender. All banks will lend money
10 at a rate of 6 per cent but bankers have admitted
11 to us that in doing so they are quite selective.
12 Some banks have particular plans for consumer
13 credit which are less selective but where the
14 cost of borrowing works out to about 11 per cent.
15 There is little question but that the rates
16 charged by finance companies and acceptance com-
17 panies is considerably higher, sometimes going
18 as high as 24 per cent, or in that vicinity.
19 We are attaching to this brief an Appendix
20 showing the comparison between rates charged for
21 credit by several lenders, all of which have been
22 verified directly in person with the lenders or
23 taken from the charges shown in their advertise-
24 ments.



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ments.



IV. LIABILITIES

Deposits

P134 The total deposits of all credit unions
in Nova Scotia amount to only \$482,814.00 as of
the 30th September, 1961. This is not significant
in the total liabilities of our credit unions.
Ordinarily credit unions have deposit accounts
as a convenience for the members who wish to save
for some particular goal such as vacations or
special purchases, or for the purpose of having
additional funds available for some need which they
anticipated in a relatively short time. These
funds are placed with the credit union with the
intention that they will be withdrawn some time
in the near future. Six credit unions offer
personal chequing services to their members and
for this purpose deposit accounts are used. A
large amount of the total in deposits would be
accounted for by these credit unions. In view of
the amount that is involved in deposits in Nova
Scotia in relation to total liabilities, we feel
that the amount is not significant and it is our
opinion that this account will not increase to
any great extent in the immediate future.

P135 Shares

(a) The share accounts of our credit
unions account for the largest single item in the
total liabilities of our credit unions. At the



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1 end of September, 1961, shares accounted for
2 \$14.6 million out of a total liabilities of
3 over \$17 million. Shares in a credit union
4 are not shares in the same sense as in other
5 corporations. Actually they are units of
6 savings and have a value of \$5.00. While credit
7 union members are urged to look upon their shares
8 in a credit union as being their permanent savings,
9 nevertheless these shares are withdrawable on
10 demand. If the sudden withdrawal of shares
11 would jeopardize the credit union the directors
12 may demand thirty days notice of intention to
13 withdraw. Rarely is this notice demanded.

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14 In Nova Scotia it is necessary that a
15 person have at least one fully paid-up share to
16 be considered a member. As a member-shareholder
17 he is entitled to all the privileges of a member.
18 A good member-shareholder is one who regularly
19 and systematically adds to his share account on
20 pay days or as often as possible. It is prefer-
21 able to have members save small amounts regularly
22 rather than to have them place larger amounts in
23 the savings accounts less frequently. It is our
24 feeling that this is a more effective way to
25 develop the habit of thrift which is part of the
26 basic philosophy of credit unions.

P137

27
28 (b) We do not have any figures at this
29 time on the rate of withdrawal of shares but we
30 hope that this information will be available to

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(b) We do not have any figures at this time on the rate of withdrawal of shares but we hope that this information will be available to



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us in the near future so that we can in turn make it available to this Commission.

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The return on shares in Nova Scotia for the past year was 3.13 per cent on the average. This ranged all the way from a few credit unions that paid no dividends to those which paid the maximum of 5 per cent. The following schedule will indicate the various rates paid:

<u>No. of Cr.Unions</u>	<u>Dividends</u>	<u>No. of Cr.Unions</u>	<u>Dividends</u>
7	1%	17	3 1/2%
21	2%	34	4%
15	2 1/2%	4	4 1/2%
32	3%	6	5%

(74 no report)

P139

(d) It is our opinion that the share business of a credit union is not very responsive to the return that is paid on shares. Generally speaking, credit union members in Nova Scotia are not dividend conscious; this has been a part of the teaching of the leaders of our Movement from the very beginning. Our people do like to see an organization operating successfully and showing a net gain for distribution but they are not too concerned about receiving dividends. For the most part the amount of the dividend return to the average member is small in terms of dollars and cents. Our members are more conscious of their organization providing good service, and providing for education, and in order to do this the membership for the most part are happy to share the



make it available to this Commission.

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No. of Cr. Unions	Dividends	No. of Cr. Unions	Dividends
7	1%	17	3 1/2%
15	2 1/2%	4	4 1/2%
32	3%	8	5%

(74 no report)

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1 earnings with those other needs. However, our
2 people are human too! While they may not
3 seriously question the difference between a
4 dividend of 3 per cent and 4 per cent, they do
5 question the difference between no dividend or a
6 dividend of less than 2 per cent to a dividend
7 of 3 per cent or more. The rate of dividend paid
8 by a credit union does influence its share
9 business to some extent but, in our opinion, it is
10 not a very sensitive barometer!

11
12 P140 It is our opinion that a system of deposit
13 insurance is not significant to the Credit Union
14 Movement. Our experience over the last twenty-
15 nine years of operation of credit unions indicates
16 no particular need for this type of insurance.
17 We recognize that there is a need for some type
18 of assistance for credit unions that for one
19 reason or another are forced to liquidate but
20 the need seems to be such that it can be provided
21 for within the framework of the Credit Union Move-
22 ment. In our own province we have seen the need
23 for a fund that would facilitate the liquidation
24 of defunct and inactive credit unions, which
25 would enable a credit union to discharge its
26 obligations to its members. We have provided
27 for this need in a small way by the establishment
28 of a Stabilization Fund a few years ago. This
29 seems to be sufficient to take care of the need
30 for the present and could, with modifications,



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1 become large enough to provide adequate assurance
2 for the future.

3
4 P141 The Stabilization Fund for Nova Scotia
5 credit unions is a fund set aside by the League
6 each year out of its net earnings. It is ad-
7 ministered by the board of directors of the League.
8 The League Board is empowered to consider applica-
9 tions for assistance from this fund either as
10 grants, loans, or it may purchase the assets
11 of the credit union and take the responsibility
12 of realizing on these assets. We are attaching
13 to this Brief a summary of the contributions
14 made to this fund, and the assistance that has
15 been provided by it.

16
17 V. RELATIONS WITH OTHER
18 FINANCIAL INSTITUTIONS

19 P142 (a) We find it difficult to discuss
20 the question of competition with other financial
21 institutions. This arises from the fact that
22 we have no great feeling of being or wanting to
23 be competitors. We recognize that keen competition
24 exists between other institutions of a private
25 profit nature and this is natural because more
26 business means greater profits which is the driving
27 force in all types of private profit enterprise.
28 We do not have this same motivation in credit
29 unions since these are co-operatives dedicated
30 to the idea of providing the maximum service to



The Stabilization Fund for Work Societies credit unions is a fund set aside by the League each year out of the net earnings. It is administered by the board of directors of the League. The League Board is empowered to consider applications for assistance from this fund either as grants, loans, or it may purchase the assets of the credit union and take the responsibility of realizing on these assets. We are attaching to this Brief a summary of the contributions made to this fund, and the assistance that has

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1 the members at the lowest possible cost. It is
2 a self-help Movement made up of people who
3 mutually agree to organize themselves into a
4 credit union, to share both the benefits and
5 the risks. It does business only with its members
6 and its members are limited to a particular group.
7 In view of the very nature of a credit union it
8 is difficult to put it into the same class as
9 other institutions with different motivating
10 forces and suggest that they are competing in
11 the same way as other financial institutions.
12 Therefore, we feel that the question of whether
13 or not a credit union is competing with another
14 institution is mostly a matter of how one
15 defines competition. In a very broad sense one
16 may suggest that a credit union is competing with
17 a bank because its members or some of them may
18 otherwise be customers of a bank or some other
19 financial institution. If we use this definition
20 then one would have to admit that our churches,
21 schools and practically every other type of
22 organization in society were in competition with
23 each other. On the other hand, if by competition
24 we mean striving to take business away from
25 other institutions, it is our opinion that this
26 is not our intention or our policy and, there-
27 fore, we are not competitors in the sense that
28 the word is used to-day.

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and its members at the lowest possible cost.



1 came into existence in Nova Scotia because the
2 average citizen did not have a source of credit
3 available to him. The traditional credit in-
4 stitutions in Nova Scotia until recent years
5 have been the banks which did not provide this
6 service to the extent needed. Out of necessity
7 credit unions were born. It is only in recent
8 years that banks have started to liberalize
9 and provide a genuine personal loan service.
10 It is only in recent years that the loan companies
11 have come to Nova Scotia. If the need for credit
12 had been adequately provided by the banks or
13 other institutions at a reasonable cost it is
14 quite likely that the Credit Union Movement
15 would never have been started in this province
16 or elsewhere.

17
18 P144 At the present time we have a multi-
19 plicity of finance companies, banks with personal
20 loan departments and other agencies such as the
21 trust companies advertising their services to
22 the general public. All have their advantages
23 and disadvantages.

24 P145 With reference to interest rates, we
25 think the credit union rate of 12 per cent per
26 annum compares favourably. It is lower than the
27 finance companies and about the same, or, in
28 some cases, a little higher than the banks. It
29 is common for credit union officers to suggest
30 that a member borrow from a bank or elsewhere



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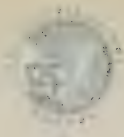
1 if he can obtain comparable service at a lower
2 cost. This, we think, is in harmony with our
3 philosophy.

4 P146

5 As for service charges, we have none
6 as such in credit unions. The credit union charges
7 a rate of interest and this is the only charge for
8 the use of the money; there is no service charge
9 or administration charge. Other institutions
10 do use service charges, but most often it is
11 difficult to determine which is interest and
12 which are charges, so that it is hard for the
13 layman to determine what true rate of interest
14 is being paid for the use of money.

15 P147

16 As far as service is concerned, there
17 is no question but that by and large other in-
18 stitutions are able to provide better services
19 than credit unions. Most credit unions are
20 part-time operators depending upon voluntary
21 help and, therefore, cannot offer the same con-
22 venience and service that other institutions
23 provide. However, where credit unions have grown
24 to the point where full-time operations is
25 feasible, we find that these credit unions pro-
26 vide a service that compares favourably with the
27 best. One must remember, too, that there are
28 many thousands of people in rural areas and small
29 fishing villages where there are no banks or other
30 lending agencies located and where the credit
union is providing a service to the limit of its



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1 abilities. These organizations are not located
2 in these areas because there is not the volume
3 of business that will assure an operating
4 profit. This is but another proof of the practical
5 workings of the credit union philosophy, not for
6 profit, not for charity, but for service!

7
8 P148 We regret that many of these organiza-
9 tions are using a type of high pressure advertising
10 that is misleading to the general public. The
11 average citizen is of the opinion that the
12 maximum rate a bank can charge for the use of
13 credit is 6 per cent. We know that the cost of
14 credit under some plans is actually more than 6
15 per cent. This is explained away by suggesting
16 that the interest charge is 6 per cent but that
17 the bank also levies an administration charge in
18 addition. It is all a part of the cost of money
19 and we feel should be so stated. Finance com-
20 panies, likewise, advertise the ease with which
21 one can have his financial problems solved
22 confidentially, inexpensively, and without any
23 bankable security. We know that very often this
24 is far removed from actual fact. Such loans are
25 not inexpensive, and in many cases the borrower
26 knowingly gives as security every personal
27 possession that he owns by way of a chattel
28 mortgage. Payments are made easy by a level
29 payment system and very often the interest rate
30 is not mentioned in the contract. We have met



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1 cases where individuals were concerned that they
2 were paying no interest at all for the use of
3 credit.

4
5 P149

6 Despite the fact that credit services
7 are available in many institutions, we find that
8 our credit unions are continuing to show
9 accelerated growth. This is due to several
10 factors. The credit unions and the League are
11 doing a more effective job of educating their
12 members and the public on the benefits of credit
13 unions. There is also a larger number of our
14 people reading and hearing about credit unions
15 and with increasingly higher educational stan-
16 dards they are able to compare for themselves
17 the advantages of credit union membership.
18 The loan protection and life savings programme
19 of credit unions has given impetus to the
20 growth of the Movement because the advantages of
21 this programme are becoming more widely known
22 among the general public.

23
24 P150

25 (b) The basic objectives of the Credit
26 Union Movement are two-fold. First, to encourage
27 the members to develop the habit of thrift by
28 regular and systematic savings. Second, to pro-
29 vide a source of credit for provident and productive
30 purposes at reasonable rates of interest. Beyond
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1 receive. It is natural, too, that the Movement
2 across the national will set objectives. The
3 Brief to be presented by the national committee
4 representing the Movement across Canada will
5 comment on these objectives and their implications.

6 P151

7 (c) In our Credit Union Movement in
8 Nova Scotia we have enjoyed a happy relationship
9 with the banks with which we have been doing
10 business. We have differences of opinion at times
11 regarding charges for clearing cheques and
12 negotiable orders but these differences have been
13 resolved reasonably well by negotiation. We
14 are not completely satisfied with the present
15 arrangement and schedule of charges but we have
16 accepted them in good faith and with the under-
17 standing that negotiations be continued from
18 time to time to improve on the present arrangement.

19 P152

20 It is our feeling that the Credit Union
21 Movement can use the bank clearing system to
22 advantage. In Nova Scotia the League offers a
23 chequing service to its member credit unions on
24 a corporate basis. Most credit unions in the
25 province have their current account with the
26 League and write orders against their account
27 which are negotiable through the banks. For
28 the most part credit unions send their deposits
29 to the League by bank transfers, the cost of
30 which is borne by the League. Other credit unions
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1 mail which is insured in transit, the cost of
2 which is borne by the League. Credit unions
3 situated close to the League Office make their
4 deposits in person.

5
6 P153

7 The advantage of this arrangement is
8 that it enables the League to pool the combined
9 unused resources of credit unions and by so
10 doing is able to offer a greater service to
11 credit unions and their members. It is actually
12 an extension of the credit union idea. On the
13 local basis credit unions receive the savings of
14 the members into a common pool from which they
15 provide for the credit needs of the members. The
16 League receives the surplus or unused funds of
17 credit unions into another common pool which
18 provides for the added needs of the local credit
19 unions.

20
21 P154

22 Six credit unions provide a chequing
23 service on a personal basis which permits the
24 members to write orders against their deposit
25 accounts with the local credit union. This ser-
26 vice also brings within the credit union opera-
27 tion additional resources that can be used to
28 some extent for additional loan service to the
29 members.

30
P155

There are two arrangements that credit
unions and leagues may use for chequing purposes.
One is the unitary system by which each credit



mail which is insured in transit, the cost of which is borne by the League. Credit unions situated close to the League Office make their deposits in person.

The advantage of this arrangement is that it enables the League to pool the combined unused resources of credit unions and by so doing is able to offer a greater service to credit unions and their members. It is actually an extension of the credit union idea. On the local basis credit unions receive the savings of the members into a common pool from which they provide for the credit needs of the members. The League receives the surplus or unused funds of credit unions into another common pool which provides for the added needs of the local credit

Six credit unions provide a checking service on a personal basis which permits the members to write orders against their deposit accounts with the local credit union. This service also brings within the credit union operation additional resources that can be used to some extent for additional loan service to the

There are two arrangements that credit unions and leagues may use for checking purposes.



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A2000

1 union must apply to its bank for the privilege.
2 If approved by the committee appointed by the
3 Canadian Bankers' Association, the credit union
4 agrees to an arrangement and a schedule of charges
5 which, to date, has worked out exceptionally well.
6 There are disadvantages to this arrangement.
7 Each credit union must make application to its
8 bank bank for the privilege which could cause
9 some concern if individual bankers did not like
10 the idea. Under the present arrangement it is
11 necessary that such credit unions keep an open
12 account in the bank on which its orders are
13 drawn, which, to some extent, defeats the pur-
14 pose of the arrangement. This has a tendency to
15 spread unused funds among the various banks rather
16 than pooling them within the Movement. This
17 arrangement also presents some difficulties for
18 credit unions in remote areas that are far re-
19 moved from a bank.

20 P156 The second and alternate system is the
21 centralized clearing plan by which the League
22 negotiates an arrangement on behalf of its member
23 credit unions. Under this arrangement all orders
24 are drawn on the League and the League, in turn,
25 works through the main branches of each of the
26 banks. We would prefer this system but because
27 the details of clearing and depositing must be
28 done at main branch points, we find this impossible.
29 The main branches of our banks are located in
30



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A2001

1 Halifax whereas our office is located in Anti-
2 gonish. To shift the operation at this time would
3 be economically unfeasible for us since it would
4 mean moving some of our staff and the equipment
5 that is needed for this particular type of
6 arrangement. We would like very much to see
7 changes made in the arrangements that would
8 permit us to use to greater advantage the clearing
9 facilities of the banking industry but since this
10 is a problem that has implications of a national
11 nature we feel that any suggestions for changes
12 should come from the national committee repre-
13 senting the national aspects of the Movement.

14 P157

15 (d) We have no particular comment to
16 make on contacts with the Bank of Canada and
17 the Minister of Finance. Since our credit unions
18 are incorporated under provincial laws and super-
19 vised by provincial government inspectors, there
20 is little, if any, contact with the Bank of
21 Canada and the Minister of Finance.



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Canada and the Minister of Finance.



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VI. EARNINGS, EXPENSES AND RESERVES

P158

(a) The following is a consolidated

Profit and Loss Statement for credit unions in
Nova Scotia for the year ending the 30th
September, 1961:

EXPENSE INCOME

Rent, light and			
Heat	\$14,976.38	Interest Received	\$1,119,447.37
Salaries	212,352.36	Other Income	115,362.53
Office expense	56,606.31		
Loan Protection			
and Life			
Savings In-			
surance	211,548.48		
Other Expenses	75,679.85		
TOTAL EXPENSES	\$571,163.38		
NET GAIN	\$663,646.52	TOTAL INCOME	\$1,234,809.90

P159

The major source of income for credit
unions is the interest received on loans to members.
This amounts to \$1,119,447.37. Other income
listed at \$115,362 is made up of interest on
investments, interest on loans made by transfer
from savings accounts, dividends on insurance
premiums and miscellaneous items of income such
as from rents.

P160

From the details of expense it will be
noticed that rent, light and heat is small.
This is because few of our credit unions have to
pay rent. Most credit unions either own their
own small buildings or space is provided free.



EXPENSES AND RESERVES

(a) The following is a consolidated Profit and Loss Statement for credit unions in Nova Scotia for the year ending the 30th

<u>EXPENSE</u>		<u>INCOME</u>
Rent, light and heat	\$14,976.38	Interest Received \$1,119,447.37
Office expense	56,608.51	
Loan Protection and Life Savings Insurance	211,548.48	
TOTAL EXPENSES	\$332,133.37	
		NET GAIN \$683,648.52
		TOTAL INCOME \$1,234,447.37

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A2003

1 Salaries account for the largest single item
2 of expense and represents only 17.2 per cent of
3 total income. Again this figure is low because
4 of the fact that most credit unions do not pay
5 full-time salaries but depend to a large extent
6 upon free help given by treasurers and other
7 officers. Those that are paid receive very modest
8 remuneration for their services. Office expenses
9 account for \$56,606 and this includes stationery
10 and bookkeeping supplies, postage and other
11 routine office expenses. Loan Protection and
12 Life Savings Insurance account for the second
13 largest item of expense amounting to \$211,548
14 or 17.1 per cent of total income. Other ex-
15 penses amount to \$75,679 and this covers all
16 other types of operating expense including
17 bonding; interest on borrowed money and deposits;
18 bank charges, depreciation; insurance, taxes;
19 education; League dues; advertising; annual
20 meeting expense; auditing and the expense of
21 delegates attending chapter meetings and the
22 League's annual convention.

23 P161 The net profit, after providing for
24 Guaranty Fund and other reserves, amounts to
25 \$555,875 according to the official report of the
26 Registrar of Credit Unions for 1961. This amount
27 is returned to the members as dividends on shares
28 and refunds on interest paid, with any balance
29 going into undivided earnings.
30

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total income. Again this figure is low because

of capital and reserves and the fact that



1 P162 It is significant to point out that
2 \$555,875 out of a net of \$663,646 is returned
3 directly to the members in the form of dividends
4 and rebates. Along with this a number of items
5 including loan protection and life savings in-
6 surance; League dues, bonding and educational
7 expenses benefit directly or indirectly the members
8 of the credit union. It is, therefore, easy to
9 see that the credit union, in practice, does
10 operate so that all financial gains made by
11 the organization are returned directly or in-
12 directly to the members.

13
14 P163 (b) All credit unions in Nova Scotia
15 must set aside each year 20 per cent of their
16 net earnings into a Guaranty Fund which is main-
17 tained as a reserve against losses because of
18 uncollectible loans. All write-offs are examined
19 by the supervisory committee and the Inspector
20 of Credit Unions who satisfy themselves that such
21 write-offs are made only after every attempt is
22 made to collect. It is common practice, also,
23 for the inspectors to insist upon credit unions
24 crediting all interest collected on a bad account
25 to the principal amount and then charging only
26 the remaining principal balance to the Guaranty
27 Fund.

28 P164 Credit unions may also set up other re-
29 serves. A reserve for education may be set up
30 but the amount shall not exceed 10 per cent of the



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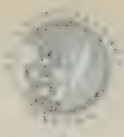
surplus in any year. Funds so set aside must be used for educational purposes within three years or be transferred to the Guaranty Fund. A credit union may also set aside a reserve for emergencies, estimated losses or special expenditures but these must be used within ten years or transferred to the Guaranty Fund or distributed to the members as dividends or rebates.

VII. VIEWS ON THE CAPITAL MARKET

P165 Unfortunately we do not feel competent to express opinions on this subject and since this question does not appear to be of any great significance to our Credit Union Movement in Nova Scotia, we would prefer to make no comment.

CONCLUSION

P166 We have tried to present to a study of the Credit Union Movement in Nova Scotia substantiated with official facts and figures where it was possible to do so. We shall continue to attempt to assemble for the benefit of the Commission further material that we are requesting from our credit unions so that it, too, may be available to you. We have enjoyed doing this Brief as it provided us with an opportunity to review in more detail many aspects of our Movement which otherwise would not have been analyzed for some time.



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 detail many aspects of our Movement which other-
 wise would not have been analyzed for some time.



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Toronto, Ontario

A2006

1 It has also made it necessary for us to re-read
2 some of the basic philosophy of our Movement and
3 to become more conscious of the hopes and
4 aspirations of the great men who gave birth to
5 credit unions and nurtured them so well in the
6 early years. Probably the real concept of the
7 Credit Union Movement, as a part of the Co-opera-
8 tive Movement, can best be summed up with a
9 quotation from a speech made by the late Dr.
10 M. M. Coady who spent his life, with all his
11 talents, encouraging the people of these Atlantic
12 Provinces to co-operate with each other to
13 achieve the more abundant life:

14 "We have no desire to remain at the
15 beginning, to create a nation of mere
16 shopkeepers, whose thoughts run only
17 to groceries and to dividends. We
18 want our men to look into the sun and
19 into the depths of the sea. We want
20 them to explore the hearts of flowers
21 and the hearts of their fellow-men.
22 We want them to live, to love, to play
23 and to pray with all their being.
24 We want them to be men, whole men,
25 eager to explore all the avenues of life
26 and to attain perfection in all their
27 faculties. We want for them the
28 capacity to enjoy all that a generous
29 God and creative men have placed at
30 their disposal. We desire above all that



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Toronto, Ontario

A2007

1 "they will discover and develop their
2 own capacities for creation. It is good
3 to appreciate; it is godlike to create.
4 Life for them shall not be in terms of
5 merchandising but in terms of all that
6 is good and beautiful, be it economic,
7 political, social, cultural or spiritual.
8 They are the heirs of all the ages and
9 of all the riches yet concealed. All
10 the findings of science and philosophy
11 are theirs. All the creations of art and
12 literature are for them. If they are
13 wise they will create the instruments
14 to obtain them. They will usher in the
15 new day by attending to the blessings
16 of the old. They will use what they
17 have to secure what they have not."

18
19 Respectfully submitted on behalf of the
20 Board of Directors of the Nova Scotia Credit
21 Union League.

22
23 (signed) R. MacMullin
24 Managing Director.

25
26 12th March, 1962.
27 Antigonish, Nova Scotia.
28
29
30

... will discover and develop their
...
...
...
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new day by attending to the lessons
of the old. They will see what they
have to secure what they have not."

Respectfully submitted on behalf of the

Board of Directors of the Nova Scotia Credit

Union League.

(signed) R. MacMillan

12th March, 1962.



Aethercut & Young
Toronto, Ontario

A2008

APPENDIX - TABLE III

Balance Sheet and Statement of Operations

Nova Scotia Credit Union League

April 30, 1961

ASSETS

Cash on hand and in banks
Loans receivable
Accrued interest receivable
Other accounts receivable
Short term investment
- Bank of Nova Scotia

\$174,930.53
257,470.08
31,204.26
13,662.09
100,000.00

INVESTMENTS:

Marketable securities at par
(Cost \$721,614.30; market
value \$681,669.40)
Other securities at cost
Mortgages receivable

\$731,682.00
50,525.00
1,273,664.84

INVENTORY OF PAPER AND INK
(Printing Department)

DEFERRED CHARGES

FIXED ASSETS AT COST:

Land and buildings
Furniture, fixtures and equipment

\$ 109,788.96
26,020.05

LIABILITIES

DUE TO MEMBER CREDIT UNION
AND CO-OPERATIVE ORGANIZATIONS:

Current accounts
Call deposits
Guarantee fund deposits
1 year deposits
3 year deposits
5 year deposits

\$704,601.27
356,528.47
620,585.00
2,600.00
281,535.00
436,089.29

Deposits on capital stock subscriptions

7,120.00
\$2,409,059.03

DEFERRED INCOME:

Unamortized discount on purchase of
investments

2,155,871.84

7,927.25

RESERVES:

Reserve for refund of interest
Reserve for losses on loans and
investments
Reserve for stabilization fund
Reserve for depreciation
Reserve for convention expenses
General reserve

\$ 290.17
52,673.54
9,119.63
33,194.43
173.00
54,872.35

150,323.12

CAPITAL:

Capital Stock
Authorized - 50,000 shares of
\$10.00 par value each
Issued and paid up -
Surplus

135,809.01

\$240,440.00
73,928.42

314,368.42
\$2,881,677.82



Expenditure to Department for 1961-1962

Expenditure to Department for 1961-1962

1961, 1962

FINANCIAL

Statement of Financial Position

1961, 1962

1961, 1962

Statement of Financial Position

Statement of Financial Position

FINANCIAL

Statement of Financial Position

1961, 1962

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1961, 1962

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A2009

APPENDIX - TABLE III

Balance Sheet and Statement of Operations

Nova Scotia Credit Union League

April 30, 1960

WE HOLD THESE ASSETS

Cash on hand and in banks. \$231,295.69
Loans receivable. 240,358.96
Accrued interest receivable. 25,461.97
Other accounts receivable. 11,004.15

INVESTMENTS:

Marketable securities at par
(cost \$717,386.12;
Market Value \$657,691.20). \$725,210.00
Other securities at cost. 5,525.00
Mortgages receivable. 1,229,476.48

INVENTORY OF PAPER AND INK:

(Printing Department).

DEFERRED CHARGES.

FIXED ASSETS AT COST:

Land and buildings. \$105,414.18
Furniture, fixtures and equipment. 23,839.59

TO MEET THESE OBLIGATIONS

DUE TO MEMBER CREDIT UNIONS AND

CO-OPERATIVE ORGANIZATIONS:

Current accounts. \$508,120.77
Call deposits. \$774,951.77
Guarantee fund deposits. 288,345.65
1 year deposits. 535,189.66
3 year deposits. 10,500.00
5 year deposits. 256,385.00
Deposits on capital stock subscriptions. 321,239.29
480.00 \$2,187,091.37

DEFERRED INCOME:

Unamortized discount on purchase
of investments. 5,613.19

RESERVES:

Reserve for refund of interest. \$290.17
Reserve for losses on loans. 45,018.58
Reserve for Stabilization Fund. 6,170.39
Reserve for depreciation. 29,346.43
Reserve for 1961 CUNA Convention. 617.00
General reserve. 47,517.39
128,959.96

CAPITAL:

Capital Stock.
Authorized - 50,000 shares of \$10.00
par value each.
Issued and paid up - 22,120 shares. \$221,200.00
Surplus. 64,713.89
285,913.89

\$2,607,578.41

Distance between and Statement of Object

Vol. 22, 1902, 1903, 1904, 1905, 1906, 1907, 1908, 1909, 1910, 1911, 1912, 1913, 1914, 1915, 1916, 1917, 1918, 1919, 1920, 1921, 1922, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934, 1935, 1936, 1937, 1938, 1939, 1940, 1941, 1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1956, 1957, 1958, 1959, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2

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APPENDIX - TABLE III

Balance Sheet and Statement of Operations

Nova Scotia Credit Union League

April 30, 1959

WE HOLD THESE ASSETS

Cash on hand and in banks	\$ 39,900.56
Loans receivable	212,518.26
Accrued interest receivable	19,864.72
Other accounts receivable	11,186.18
Members' current account overdrafts	21,775.66
	<u>\$ 305,245.38</u>

INVESTMENTS:

Marketable securities at par (Cost \$626,787.12;	
Market value \$584,424.80)	\$ 633,110.00
Other securities at cost	5,525.00
Mortgages receivable	<u>1,254,321.92</u>

INVENTORY OF PAPER AND INK
(Printing Department)

DEFERRED CHARGES

FIXED ASSETS AT COST:

Land and buildings	\$ 105,414.18
Furniture, fixtures and equipment	<u>20,949.64</u>

\$2,333,695.15

TO MEET THESE OBLIGATIONS

BANK LOAN (SECURED)	\$ 150,000.00
---------------------	---------------

DUE TO MEMBER CREDIT UNIONS AND
CO-OPERATIVE ORGANIZATIONS:

Current accounts	\$504,853.05
Call deposits	282,101.34
Guarantee fund deposits	461,278.96
Term deposits	556,328.18
Deposits on capital stock subscriptions	<u>1,030.00</u>
	1,805,591.53

DEFERRED INCOME:

Unamortized discount on purchase of investments	4,434.60
--	----------

RESERVES:

Reserve for refund of interest	\$ 204.57
Reserve for losses on loans	39,006.11
Reserve for Stabilization Fund	5,131.09
Reserve for depreciation	24,603.80
Reserve for 1961 CUNA Convention	267.00
General reserve	<u>41,504.92</u>
	110,717.49

CAPITAL:

Capital Stock	
Authorized - 50,000 shares of \$10.00 par value each	
Issued and paid up - 19,676 shares	\$196,760.00
Surplus	<u>66,191.53</u>

\$2,333,695.15

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SPRINGFIELD, MA 01104

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Nethercut & Young
Toronto, Ontario

A2011

APPENDIX - TABLE III

Statement of Operations - Educational Department - April 30, 1959, 60, 61

INCOME:

	1959
Assessment dues	\$45,287.77
Grant from Deposit and Loan Department	3,659.35
Mailing Service (Net)	
Miscellaneous	\$48,947.12

1961

	\$48,418.92
	3,871.03
	485.76
	79.35
	\$52,855.06

EXPENDITURE:

Advertising	\$ 300.34
Convention expenses	1,095.73
Convention travel assistance	
Directors' and executives' expenses	1,948.26
Dues and Grants	6,079.00
Depreciation	816.34
Employees' retirement fund	699.88
Employees' Blue Cross	351.45
Freight and express	25.15
Grants - Maritime Co-operator	1,000.00
CUNA World Extn.	
Interest and bank charges	636.17
Insurance	55.00
Legal and audit	286.62
Miscellaneous	303.83
Office supplies	575.69
Other educational expense	2,129.45
Postage	620.47
Provision for 1961 CUNA Convention	350.00
Rent	900.00
Staff Training	675.15
Salaries:	
Administrative	
Field force	
Office	21,276.56
Travelling	11,670.97
Telephone and telegraph	412.35
Unemployment insurance	85.02

1960

	\$45,991.06
	3,293.91
	84.95
	\$49,369.92

	\$ 575.39
	709.79
	75.00
	2,662.96
	5,221.44
	842.15
	843.00
	196.20
	25.76
	1,000.00
	428.56
	607.12
	109.50
	291.25
	44.78
	500.66
	2,133.38
	764.91
	350.00
	900.00
	351.20
	763.07
	55.00
	350.00
	286.34
	867.43
	2,319.83
	651.74
	350.00
	1,200.00
	351.20

	22,644.98
	10,080.20
	601.67
	111.52
	51,720.22
	- \$ 2,350.30

	24,046.07
	9,246.65
	548.23
	149.88
	51,434.82
	\$ 1,420.24

DEFICIT FOR THE YEAR

SURPLUS FOR THE YEAR

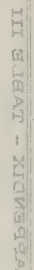


Table 1

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21.74: 0.14

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HOUSING FOR THE CITY OF

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APPENDIX - TABLE III

Statement of Operations - Deposit & Loan Department - April 30, 1959, 60, 61

INCOME:

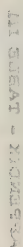
	<u>1959</u>	<u>1960</u>	<u>1961</u>
Interest on loans	\$25,575.86	\$37,109.27	\$38,689.07
Interest on mortgages	61,881.58	60,577.62	63,130.94
Investment income	26,500.02	27,575.35	33,320.45
Amortization of discount on investments	230.10	613.91	
Interest on current accounts overdrown			1,953.25
Rentals	4,754.00	\$119,001.56	\$113,047.71
		6,174.00	5,954.00

EXPENDITURE:

Administrative salaries	\$ 7,657.65	7,994.97	8,045.00
Advertising		332.03	235.30
Bank exchange	875.35	3,176.26	3,386.04
Bank clearing fees	500.00	400.00	500.00
Bonding	307.77	307.68	311.38
Convention expenses	1,095.73	709.79	428.06
Current account supplies	764.80	470.42	393.13
Depreciation	2,747.75	3,761.41	3,236.56
Directors' and executives' expenses	1,948.25	2,079.56	2,504.78
Educational Department grant	3,233.86	3,293.91	3,871.03
Employees' Blue Cross	300.27	278.39	247.30
Employees' Retirement Fund	830.99	1,155.85	390.11
Insurance	154.22	193.95	213.72
Legal and Audit Fees	1,178.40	1,401.75	1,200.00
Loan Insurance	6,328.77	5,859.65	6,188.12
Loss on sale of investments (net)			73.11
Taxes and maintenance of buildings			5,366.77
Miscellaneous	4,771.99	5,540.73	367.43
Other salaries	608.02	233.10	9,495.76
Office supplies	7,781.22	10,896.91	613.44
Overdraft interest	720.17	589.34	13,663.95
Postage	7,905.77	15,172.35	601.81
Service fees	530.10	587.24	4,652.50
Stabilization Fund Grant	3,306.55	4,103.50	2,858.38
Telephone and Telegraph	2,430.57	2,459.68	543.23
Travelling	456.90	589.38	
Unemployment Insurance	1,061.52	294.45	
	71.46		111.24
Surplus for the year	57,268.08	71,725.45	69,498.15
	\$61,733.48	\$60,124.70	\$73,549.56

DEDUCT:

Provision for uncollectible loans and losses on investments	\$ 6,173.35	\$ 6,012.47	\$ 7,354.96
Transfer to general reserve	6,173.35	6,012.47	7,354.96
BALANCE TRANSFERRED TO		12,024.94	14,709.92
<u>SURPLUS</u>	<u>\$49,386.78</u>	<u>\$48,099.76</u>	<u>\$58,839.64</u>



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1863-1864

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NO DISSEMINATION TO OTHERS



Nethercut & Young

Toronto, Ontario

A2013

APPENDIX - TABLE III

Statement of Operations - Printing Department - April 30, 1959, 60, 61

	1959	1960	1961
INCOME:			
Sales	\$15,779.69	\$16,566.25	\$19,174.31
Miscellaneous	<u>207.55</u>	<u>14.43</u>	<u>14.88</u>
Total Income	\$15,987.24	\$16,580.68	\$19,189.19
EXPENSE:			
Audit fees	109.38	125.00	150.00
Cost of paper, plates and ink	7,818.17	8,283.47	8,481.28
Convention Expenses	37.09		
Depreciation	543.16	476.95	130.94
Employees' Retirement Fund	260.45	306.11	105.14
Employees' Blue Cross	145.20	91.20	91.20
Freight and Express	115.82	100.72	127.46
Insurance	4.74	10.67	10.69
Interest and bank charges	259.87	355.48	358.94
Miscellaneous	24.57		38.01
Office supplies	81.83	173.10	99.77
Postage	74.09	68.14	100.63
Rent	360.00	360.00	360.00
Repairs to equipment	81.29	95.22	88.23
Salaries - Administrative	4,587.56	665.00	665.00
- Other	1,752.00	6,527.45	6,566.73
Unemployment insurance	50.44	67.40	74.88
Total Expense	\$16,305.66	\$17,705.91	\$17,448.90
Net Gain for Year			1,740.29
Net Loss for Year	-318.42	-1,125.23	



APPENDIX - TABLE IV
CASH AND LIQUID RESERVES

Year	Cash	Investments	League Deposits	Guaranty Fund On Deposit	Total Liquid Assets	Total Assets	% Assets Liquid
1961	1,032,536.81	469,666.12	923,000.00	650,350.93	3,075,554.78	17,044,244.42	18.1
1960	936,183.94	475,919.99	828,030.33	561,872.08	2,802,006.34	15,567,204.97	17.9
1959	918,161.21	381,714.51	870,556.53	454,657.11	2,625,089.04	14,111,896.77	18.6
1958	897,798.46	315,604.77	890,811.39	423,048.95	2,527,263.57	12,496,564.51	20.22
1957	936,812.23	258,812.84	852,702.08	363,772.99	2,412,100.14	10,817,101.57	22.29
1956	820,317.21	230,000.04	720,580.11	316,842.21	2,087,739.57	9,656,665.81	21.62
1955	740,079.64	212,161.24	622,394.28	261,979.01	1,836,613.86	8,654,479.64	21.22
1950	309,983.41	104,011.96	501,889.82	125,362.65	1,041,247.84	4,868,966.86	21.4



VI ВЛЕТ - ХИМИЧКА

СВЕРХ ИД ЛЮД ВРОТЕНЕ

№	Имя	Пол	Возраст	Сл. №	Сл. №	Сл. №	Сл. №	Сл. №
1	Иванов	М	25	123456789	987654321	112233445	556677889	001
2	Петров	М	28	234567890	098765432	223344556	667788990	002
3	Сидоров	М	30	345678901	109876543	334455667	778899001	003
4	Климов	М	32	456789012	210987654	445566778	889900112	004
5	Васильев	М	35	567890123	321098765	556677889	990011223	005
6	Попов	М	38	678901234	432109876	667788990	001122334	006
7	Смирнов	М	40	789012345	543210987	778899001	112233445	007
8	Морозов	М	42	890123456	654321098	889900112	223344556	008
9	Ильин	М	45	901234567	765432109	990011223	334455667	009
10	Кузнецов	М	48	012345678	876543210	001122334	445566778	010



Nethercut & Young

Toronto, Ontario

A2015

APPENDIX - TABLE VI

NOVA SCOTIA CREDIT UNION LEAGUE

Statement of Reserve for Stabilization Fund

November 30, 1961

RECEIPTS:

Transfers from Deposit & Loan Department:

1957	\$3,352.52	
1958	1,877.15	
1959	2,130.57	
1960	2,459.68	
1961	<u>2,858.38</u>	\$12,679.30

Received from Credit Unions as follows:

St. George's	21.87	
Bayview	3.48	
Fairview	.34	
Nelson	52.29	
Transmarine	25.00	
Seaside	7.77	
Victoria-Melford	188.02	
General Seafoods	27.31	
East Bay	51.80	
Jeddore	48.84	
Cobequid Bay	149.10	
Ellene	92.92	
Seaview	<u>859.90</u>	<u>1,528.64</u>
		\$14,207.94

EXPENDITURES:

To Credit Unions Closed:

Armview	\$1,885.21	
Thorburn	384.04	
Pictou	163.90	
Whycocomagh	318.37	
Grand Mira	221.48	
Harbour	329.43	
Westville	1,785.88	
Bolsdale	<u>527.64</u>	<u>\$ 5,615.95</u>

BALANCE AT CREDIT:

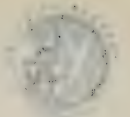
\$ 8,591.99

LESS:

Main-a-Dieu Loan	\$ 689.28	
Truro Woodworkers	8.85	
Progress	236.15	
Seaview	284.78	
Shearwater	<u>30.20</u>	<u>1,249.26</u>

NET BALANCE:

\$ 7,342.73



APPENDIX - TABLE VI

Statement of Reserve for Stabilization Fund
November 30, 1961

RECEIPTS

Transfers from Deposit & Loan Department:

\$3,552.28

\$12,609.30

Received from Credit Unions as follows:

\$1.87

St. George's

\$2.00

St. John's

\$2.00

St. Peter's

\$2.00

St. Paul's

\$2.00

St. James's

\$2.00

St. Andrew's

\$2.00

St. David's

\$2.00

St. Elizabeth's

To Credit Unions Closed:

\$1,882.41

Annville

\$2.00

Brooklyn

\$2.00

Brooklyn

\$2.00

Brooklyn

\$2.00

Brooklyn

\$2.00

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BRIEF BY

SAINT FRANCIS XAVIER UNIVERSITY EXTENSION
DEPARTMENT

ON

THE EDUCATIONAL AND SOCIOLOGICAL REASONS
FOR ITS PROMOTION OF CREDIT UNIONS

Role of the University

1. Freedom arises from the traditional meaning of man's nature, his dignity, and his destiny. By nature, man is endowed with intellect and will, the two particular capacities which distinguish him from the rest of the animal order. Because of these capacities or characteristics, man alone is capable of perceiving the truth and of choosing the good. Man is born with many latent possibilities. Certainly, in this respect, the development of his intellect is most important in making him a free and intelligent person -- free from ignorance and error, free to pursue truth, to preserve it and to share it. Similarly for the development of his will, it is vital that he become a person free from tyranny and determinism; free to choose the proper means to realize his dignity and become master of his own destiny.

2. From this nature and dignity of man, flow the freedoms of speech and worship, and the freedoms from want and fear. Although these are guaranteed by such laws as the Magna Carta and the Bill of Rights, they are essentially incorporated in man's nature and governed by



PRINTED BY

DEPARTMENT

ON

FOR ITS PROMOTION OF CREDIT UNIONS

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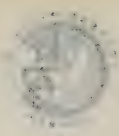
1 the natural law itself. The natural law envisages
2 all human beings as operating freely and intelligently,
3 in an orderly fashion toward the fulfilment of the purpose
4 of their existence.

5 3. Universities have had a long and close
6 association with man's search for truth. Basically,
7 the function of a university is to seek truth, preserve
8 it, and diffuse it. Likewise, a university strives
9 to attain the good, and endeavors to make the good
10 life, based on truth, available and abundant to all men.
11 Thus the university is a bastion of freedom, engaged
12 in a never-ending process of enlightening and liberating
13 mankind, and thus developing a free and intelligent
14 society.

15 4. The university has therefore a responsibility
16 for truth and enlightenment, for freedom and for the
17 good life. How far the responsibility extends to all the
18 people within its constituency, will depend on the
19 university's philosophy of education, especially its
20 social implications. In addition, the extent of its
21 responsibility will be affected by circumstances of time,
22 place and persons. As a rule, universities agree that
23 in order to fulfill their function properly, they cannot
24 remain aloof from society and the problems of the
25 people. The image of the university as a body of scholars
26 withdrawn from the world and exclusively academic, is now
27 rapidly disappearing.

University and Adult Education

28
29 5. Gradually universities have become concerned
30 with adult education and have assumed responsibility for
it. Many do not readily accept this responsibility.



102017

law itself. The natural law envisages
as operating freely and intelligently,
toward the fulfillment of the purpose
of their existence.

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life, based on truth, available and abundant to all men.
Thus the university is a bastion of freedom, engaged
in a never-ending process of enlightening and liberating
mankind, and thus developing a free and intelligent
society.

4. The university has therefore a responsibility
Good life. How far the responsibility extends to all the
people within its constituency, will depend on the
university's philosophy of education, especially its
responsibility will be affected by circumstances of time.

in order to fulfill their function properly, they cannot
remain aloof from society and the problems of the
world. Withdrawn from the world exclusively academic, is not

with adult education and have assumed responsibility for
many do not readily accept this responsibility.



1 They venture into the field with fear and reluctance.
2 Universities that fail to venture have their convincing
3 reasons. Problems of finances, personnel, high student
4 enrollment at the university level, are among those
5 reasons. They argue also that participation in
6 community matters will tend to lower standards. More
7 universities, however, are engaged in group enlightenment
8 programs of some kind.

9 6. Traditionally, the university has removed
10 natural leaders from the small community and oriented
11 them toward professions which frequently take them
12 out of their own community. As a result, many smaller
13 communities have suffered considerably because of this
14 drain.

15 7. Deeply conscious of its responsibility to the
16 general community of citizens, as well as to the
17 community of persons who comprise its campus, St. Francis
18 Xavier University has, over the years, recognized its
19 responsibility to the people.

20 8. St. Francis Xavier University was by no means
21 the first Canadian university to enter the adult
22 education field. Provincial universities in Alberta
23 and Saskatchewan pioneered in relating the program
24 of the campus to the everyday problems of the community.
25 Very gradually, other universities followed. St. Francis
26 Xavier is unique because it pioneered in a new philosophy
27 of adult education with an unusual approach.

28 9. St. Francis Xavier University allied itself
29 with the social and economic needs of people. All
30 university extension programs stress, along with academic
training, an awareness of community, national and



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9. St. Francis Xavier University allied itself with the social and economic needs of people. All



1 international problems. They urge active participation
2 in these problems. St. Francis Xavier University also
3 based its extension program on the belief that any
4 effective adult education program must be geared to
5 the needs of the people whom it serves.

6 Through the Economic

7 10. The needs of the people in Nova Scotia at
8 the time of the initiation of this program, dictated
9 the more unique approach on the part of this particular
10 university. At the time of the inception of the St.
11 Francis Xavier Extension Department, its early pioneers
12 were keenly aware of a rampant poverty in many areas
13 of the Maritimes. These men wished to help, not by
14 solving the problems involved, but by helping the people
15 do the solving. Education was considered the key.
16 A search was made far and wide for ideas to develop
17 a practical program. What evolved and eventually was
18 called the Antigonish Movement was a program frequently
19 described as adult education through economic co-operation.

20 11. To be effective it had to start with the
21 pressing external needs of people. It assumed that an
22 educational program, if it is to yield permanent benefits,
23 must be shaped to fit the needs of specific groups, each
24 having many common interests. Vast numbers of people
25 were dissatisfied with our formal education where only
26 a few leaders received higher education. They were
27 dissatisfied with their economic conditions. It would
28 have been folly to impose a superficial program of
29 education upon people whose real interests concerned
30 the fundamental problem of living. They were not



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1 interested in mathematics, literature and art, when
2 there was an ever present problem of finding means to
3 feed and clothe a family.

4 12. It is reasonable that the educational scheme
5 of St. Francis Xavier Extension Department should be
6 one that would allow people to realize their possibilities
7 as human beings. Education through an approach to
8 economic problems was natural since poverty prevented
9 people from reaching lofty goals. To justify the
10 economic approach, Dr. M.M. Coady, the initiator and
11 first director of the St. Francis Xavier Extension
12 Department, had this to say in his address "Adult
13 Education, Key to World Progress", at the opening of
14 People's School, Sydney, N.S., October 23, 1955:

15 "Mere academic education, good as it is,
16 will not do this job. Hence it was that the
17 St. Francis Xavier Extension, in 1929, launched
18 a scheme of education which was to issue in
19 action. The appropriate field was found to
20 be in the economic, through what is known as
21 economic co-operation. We claimed, and still
22 claim with everything we have, that the world
23 cannot be reconstructed unless the common
24 people of the world, all of them, invade the
25 fields of business and finance, and secure
26 for themselves a fair share of economic
27 democracy. Without that we will have a shiftless
28 proletariat in the cities; and peons, migrant
29 workers, share croppers and tenants in our rural
30 areas. The process of degeneration is going on
with accelerated speed right here in North





1 America. If we are to save our world for
2 freedom and democracy and immunize ourselves
3 against the revolutionary ideologies of our
4 day, we shall have to get our people to use
5 this private enterprise way of life, the
6 co-operative movement to get for themselves
7 their fair share of the wealth of our nation
8 and a new chance of enjoying real life."

9 13. The early pioneers of the St. Francis Xavier
10 Extension program discovered the credit union idea
11 in Quebec and the United States and brought it to English
12 speaking Canada. It seemed to come at a most opportune
13 moment in history to show that the common people could
14 become intelligently involved in business through
15 effective ownership.

16 14. In a tape recorded message on the occasion
17 of the triple anniversary of the credit union movement
18 in the United States, January 21, 1959, Dr. Coady said:

19 "It is worth our while to pause for a
20 moment to consider the dynamics behind the rapid
21 growth of the credit union movement. We did not
22 bring the credit union to Canada just because it
23 was a thrift agency or a source of personal
24 credit, good as we recognized those things to
25 be. The St. Francis Xavier Extension Department
26 had visualized a total program of economic
27 co-operation for the people. We felt that
28 they, in a democratic way, could create
29 institutions that would develop the great
30 natural resources of the country for their



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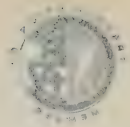
1 own welfare - production and processing
2 plants for primary producers (farmers,
3 fishermen and lumbermen), and on the consumer
4 side, co-operative plants, as well as housing
5 and other service co-operatives.

6 The very natural question came up,
7 "Where will the money come from?" We had no
8 hesitation in saying that it would come from
9 the people, where business always got its money.
10 The credit union enabled the people to finance
11 these institutions, in the early days through
12 individual loans by the members and later, as
13 the people developed their financial and
14 business abilities, by direct investment by
15 the credit unions themselves and the various
16 other financial institutions that grew out
17 of them.

18 It was this concept of credit unionism
19 that supplied the dynamics for the rapid
20 growth of the movement in Canada."

21 Credit Unions, a Vehicle for Adult Education

22 15. Credit unions constitute but a single sub-
23 division of the St. Francis Xavier program designed
24 to deal with human problems. They are a practical
25 source of opportunity for people to get a taste of
26 active participation in business. Through this source,
27 people came to see that the banking business, for instance,
28 was not the inviolable and unapproachable thing that
29 once filled them with awe. Credit unions provide a measure
30 of economic independence while they condition members to



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1 see room for group action in other fields. Successful
2 credit unions stimulate an intellectual activity among
3 members.

4 16. Credit union officers must be informed
5 leaders. These officers must also be generous with
6 their time and energy if they are to serve efficiently
7 and effectively. Each credit union organization requires
8 at least a dozen such people. These officers, with
9 the usual exception of the treasurer, change frequently
10 through election of the general membership. This permits
11 many people an opportunity for responsibility. Consider
12 tasks involved in these positions, for example:

13 Treasurer: With the exception of large
14 full-time credit unions, a treasurer for the
15 most part, serves on a voluntary basis or with
16 only honorarium remuneration. His task is to
17 manage the day-to-day operations, keep
18 accurate records, calculate and collect interest
19 in an exact and systematic manner. He must
20 be familiar with credit union policies and
21 procedures. He is well acquainted with the
22 members of the credit union. He is in a
23 position to advise and counsel regarding
24 financial matters at the consumer level.
25 He must gain the confidence of members and
26 be a major public relations officer for the
27 organization.

28 Board of Directors: Directors are elected
29 to foster the growth and development of the
30 organization in accord with the Credit Union



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1 Act. They must protect credit union funds
2 by adopting positive policies, practices
3 and efficient methods of operation. They must
4 be alert and responsive to the wishes of the
5 members in matters of service.

6 Supervisory Committee: This is primarily an
7 auditing committee. They check credit union
8 records at frequent intervals to be sure the
9 credit union is operating in accordance with its
10 by-laws and the law under which it is chartered.

11 Credit Committee: Members of this committee
12 require wise judgment. They must act on loan
13 applications. They help applicants to find
14 satisfactory security, help him obtain needed
15 loans, advise him regarding financial problems.

16 Delinquent Loan Committee: (Optional) This
17 committee is concerned with adopting a
18 system by which to determine readily the
19 exact condition of any loan on the books.
20 This entails a system of diarylizing along
21 with special collection records. They have
22 and follow a definite procedure regarding
23 loan delinquency and initiate action when
24 necessary.

25 Education Committee; Responsible for planning
26 and following a continuous program of events
27 to aid in general membership education.

28 Examples of fields of action: reactivate dormant
29 member accounts, increase membership and share
30 capital, inform members about their own
organization, inform the general public of the
value of credit unions, and increase public



1. The first step in the development of a credit union is the selection of a suitable site.

2. The second step is the selection of a suitable group of members to form the nucleus of the union. They must be alert and responsive to the wishes of the members in matters of service.

3. The third step is the selection of a suitable site for the union. This is primarily an auditing committee. They check credit union records at frequent intervals to be sure the credit union is operating in accordance with its by-laws and the law under which it is chartered.

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1 receptivity.
2 17. The responsibilities involved in these
3 positions provide a form of adult education that is not
4 a mere filler for people with time on their hands. It
5 is a chance for people to learn to handle their own
6 financial affairs. It is an opportunity to put their
7 talents at the service of others. Worth-while leaders
8 then arise when they become enlightened with practical
9 but scientific knowledge combined with an awareness
10 of workable social techniques.

11 Credit Unions and Leadership Development

12 18. Great releases of human energy lead to the
13 progress and development of any civilization. Firstly,
14 human energy must be built, then it is released.
15 But to be of positive value it must be guided and released
16 on worth-while things. Rarely does this process occur
17 by accident. Usually it is the result of positive,
18 purposeful effort. This is where the role of leadership
19 enters the picture. Leaders are necessary to crystallize
20 thinking, formulate plans and initiate action in a manner
21 that harmonizes with human nature.

22 19. Study groups mark the initial stage of credit
23 union organization in a community. During this period
24 of study, persons with qualities of leadership are
25 naturally noticed. Their interest and willingness to
26 learn and act often result in their being chosen as
27 officers when the credit is formed. As we have noted,
28 credit union officers have serious responsibilities
29 to perform if their organization is to properly fulfill
30 its function as an effective financial institution.



The responsibilities involved in these positions provide a form of adult education that is not a mere filler for people with time on their hands. It is a chance for people to learn to handle their own financial affairs. It is an opportunity to put their talents at the service of others. Worth-while leaders then arise when they become enlightened with practical but scientific knowledge combined with an awareness of workable social techniques.

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1 These officers require training for their job. They
2 must make provision for an efficient business operation,
3 develop objectives for their organization and work
4 conscientiously toward those goals.

5 20. St. Francis Xavier Extension Department, since
6 its beginning, has worked with groups from the stage
7 of study clubs through to actual credit union
8 organization and officer training. There is continued
9 emphasis on the importance of adequate instruction for
10 officers. During the past year, for instance, efforts
11 in this regard have been directed toward credit union
12 organizations in the counties of Inverness and Richmond.
13 This education program has been carried out by two full-
14 time fieldworkers of our Extension Department and the
15 local field representative of the Nova Scotia Credit
16 Union League. Other resource people who assisted from
17 time to time included the inspector of credit unions,
18 staff members from the Economics Department of the
19 University and clergy of the respective communities.

20 21. Twenty-two credit unions were involved in this
21 particular program. Initially, a five-week program
22 was conducted in seven sections of the two counties to
23 encompass all the credit union organizations. A general
24 outline of recommended practices and procedures for
25 credit unions was presented. Meetings were then held
26 at the individual board level. Quick calculation would
27 indicate that this meant a total of some two hundred
28 meetings. Without exception, these were well attended
29 meetings and often by interested members in addition
30 to those holding office in their organization.



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22. In order to illustrate the educational nature of such a program it is necessary to briefly outline its content:

(a) Consideration of the nature and extent of present credit union services and required services for the future. This meant discussion of credit union potentials and projection of goals.

(b) Changes in credit union operations, such as, location and appearance of the office rates of interest charged, method of calculating interest in an exact manner, safety measures, collection procedure in events of delinquency in loan repayment, lending policy and types of loan security. These are but samples of many operational topics that were studied and discussed in detail.

(c) Family financing to include a consideration of average income in the area, fields of family expenditures, methods of budgeting for family spending, mortgage costs and techniques for reasonable management of family income. Here the role of credit and available credit sources was carefully surveyed. Reliable information concerning the cost of credit through these available sources was realistically studied.

(d) Outlines of specific programs for such committees as the ones in charge of education



1 and delinquent loans were presented and
2 assistance was given with the actual im-
3 plementation of these programs.

4 23. Lectures and demonstrations were the usual
5 techniques of instruction during the presentation of this
6 program: visual aids, such as charts to outline steps
7 of development, to calculate true annual interest rates,
8 or simply to illustrate credit costs in the readily
9 understood terms of dollars and cents.

10 24. At all meetings the discussion group technique
11 was used following topic presentation. Participants
12 were given an opportunity to express their viewpoints
13 in the light of their own experience. Discussions were
14 enriched by the practical experience of these people
15 who are familiar with the customs and needs of their
16 communities.

17 25. One of the topics that provided impetus for
18 group discussion during the educational program of the
19 past year, was the consideration of an increase in
20 interest rate to the maximum of 1 per cent per month
21 for the many organizations where this was not already
22 the policy. Such an increase would mean added income to
23 allow for better service through improved facilities,
24 increased rate of interest payment on savings, while
25 remaining a reasonable cost for credit. Any surplus
26 income above that required for credit union operation
27 would be returned to the borrowers as interest rebates.
28 This question required and was given very serious study.
29 Each board of directors is ultimately responsible for
30 the decision in this regard. Already we are viewing



and defendant forms were presented and assistance was given with the actual implementation of these programs.

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1 the outcome of informed decision on this and the many
2 other questions discussed.

3 26. It is impossible to attend these meetings
4 without being struck by the realization that, through
5 this wrestling with real problems, leaders have been
6 and continue to be developed. We find members giving
7 an intelligent analysis of financial statements of
8 their organizations, determining their rate of growth
9 or the extent of dormant assets. They survey their
10 communities with a view to increasing membership and
11 determine where they are failing to fulfil the
12 financial needs. They devise methods to increase
13 membership and general public awareness of their
14 organizations.

15 27. We regard this educational program for
16 officers as training for leadership. The information
17 gained through it is channelled to members through
18 education committees and member-contact. Monthly
19 chapter meetings are held throughout these counties
20 to give an opportunity for organizations to compare
21 and discuss their progress, problems and plans.

22 Credit Union Influence on Membership

23 28. 1. Thrift: Provision of loans at reason-
24 able rates of interest is one of the major functions
25 of the credit union. The basic source of money to
26 the credit union is the savings of membership. Members
27 must therefore realize the importance of a program of
28 planned savings for credit union success. Two chief
29 motives for saving are: developing a healthy self-
30 interest in one's personal financial position, and



1 making money more available for use by less fortunate
2 members. Either motive emphasizes a spirit of thrift
3 which leads to family financial security and solid
4 basis for credit union organization.

5 29. 2. Financial Guidance: Allied with the
6 factor of lending service is the aim of developing
7 a program of financial counselling. Opportunities
8 are gradually being made available to treasurers
9 and credit committee members to become trained in this
10 many-sided field. The Atlantic Regional Credit Union
11 School held at St. Francis Xavier University last
12 fall and sponsored by the St. Francis Xavier Extension
13 Department and the Maritime credit union leagues, is
14 an example of a specialized training program for full-
15 time credit union personnel. Specialists in the field
16 of finance representing the University, Credit Union
17 National Association, and the Nova Scotia Credit Union
18 League were the instructors for the program. This
19 school for credit union officers will be an annual
20 feature at St. Francis Xavier University. Endeavours
21 in the field of financial guidance should foster
22 greater facility on the part of the member in handling
23 his income. In this way members acquire an improved
24 sense of values in their approach to the market.

25 30. 3. Credit Unions provide a link between
26 the producer and the consumer. General educational
27 benefits of credit unions enrich members in their
28 producer organizations. But these producers are
29 likewise consumers. Credit unions point out that it
30 is not sufficient to simply secure better prices for



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23. Credit Union provides a link between the producer and the consumer. General educational benefits of credit unions enrich members in their producer organizations. But these producers are likewise consumers. Credit unions point out that it is not sufficient to simply receive better prices for



1 produce or better wages for work. They illustrate
2 possibilities for increasing real income by careful
3 use of credit and improved buying habits.
4 31. The task is to bring members and the general
5 public to a point of considering their real credit and
6 consumer needs. Credit union programs of education
7 encourage people to think critically about many
8 things. This is so important for the consumer in the
9 continual contact with the powerful advertising industry
10 that encourages selection based on an automatic
11 response instead of a rational one. Advertising
12 endlessly creates new wants for creature comforts.
13 We have no argument against proper advertising approaches
14 that provide the public with useful information and
15 reasonable persuasion. We do object to the deceit
16 and injustice involved in so much modern advertising.
17 Through educational efforts of institutions like the
18 credit unions, it is hoped to assist in forming
19 a great body of public opinion which will demand
20 truth and justice in advertising.

21 School Credit Unions

22 32. One of the projects of credit union education
23 committees is the organization of school credit unions.
24 These are not junior reproductions of the community
25 credit union. They are savings clubs. They are
26 designed to give the student an opportunity to learn
27 the value of small but regular savings. They provide
28 the student with an understanding of the basic
29 principles of credit unions.

30 33. During the past year, we have worked



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consumer needs. Credit union programs of education
encourage people to think critically about many
things. This is so important for the consumer in the
continual contact with the powerful advertising industry
that encourages selection based on an automatic
response instead of a rational one. Advertising
We have no argument against proper advertising approached
that provide the public with useful information and
reasonable persuasion. We do object to the deceit
and injustice involved in so much modern advertising.
Through educational efforts of institutions like the
credit unions, it is hoped to assist in forming
a great body of public opinion which will demand
truth and justice in advertising.

School Credit Unions

32. One of the projects of credit union education
committees is the organization of school credit unions.
These are not junior reproductions of the community
credit union. They are savings clubs. They are
designed to give the student an opportunity to learn
the value of small but regular savings. They provide
the student with an understanding of the basic



1 directly with school credit unions in forty-seven
2 schools in Cape Breton. This perhaps seems an
3 activity beyond the field of adult education. There
4 is a very apparent need for more capable financial
5 management by adults. The results of careless habits
6 of personal finances are serious. They affect family
7 security. These reasons compel us to introduce ideas
8 of financial responsibility at the elementary and
9 high school level.

10 34. In school credit unions, responsibility
11 for management and bookkeeping rests completely with
12 students. Successful operational methods are designed
13 to occupy a minimum amount of classroom time and
14 teacher involvement. Three students in each classroom
15 are trained to handle collections and records while
16 a student-manager co-ordinates the program for the
17 entire school. Student members participate regularly
18 in projects of an educational nature sponsored by the
19 parent credit union in the community. Essay, speech
20 and poster contests are typical of this type of project.

21 Credit Unions and Community Development

22 35. We have considered the place of credit
23 unions in developing leaders and in creating an informed
24 and thinking people. Quite naturally, improvements
25 in credit union leadership are bound to be reflected
26 in the overall development of communities. The very
27 act of working together for the success of the credit
28 union organization involves a discipline. People
29 have to learn to get along with their fellows, to
30 respect differences, to work for the good of the group,



activity beyond the field of adult education. There

is a very apparent need for more capable financial

management of affairs. The results of careless habits

of personal finances are serious. They affect family

security. These persons compel us to introduce ideas

of financial responsibility at the elementary and

high school level.

34. In school credit unions responsibility

students. Successful operational methods are analyzed

to occupy a minimum amount of classroom time and

are trained to handle collections and records while

a student-manager co-ordinates the program for the

entire school. Student members participate voluntarily

in projects of an educational nature sponsored by the

credit union in the community. Heavy appeal

and poster contests are typical of this type of project.

Discussion

35. We have considered the place of credit

unions in developing leaders and in creating an informed

and thinking people. Quite naturally, improvement

in credit union leadership and action is to be expected

in the overall development of communities. The very

act of working together for the success of the credit

union organization involves a discipline. People

have to learn to get along with their fellows, to

respect differences, to work for the good of the group.



1 bearing criticism and putting aside jealousies.

2 In the process of building financial institutions, men

3 and women are being built. In becoming acquainted

4 with their problems they acquire a social vision.

5 Through the awakening process of the economic and

6 social responsibilities required for credit union

7 operations, these people quite naturally become

8 alive to other responsibilities we associate with good

9 citizenship.

10 36. Leaders in the credit union in each community

11 are leaders also in other phases of community life.

12 An example among many are the credit union leaders

13 in Grand Etang and Cheticamp, two neighbouring

14 communities in North Inverness County. These are the

15 same leaders who own and operate the co-operative fish

16 plants which provide the major source of employment

17 for the communities. And these are two prosperous

18 communities boasting a standard of living that is

19 noticeably high and in marked contrast with conditions

20 of poverty that existed as recently as twenty years ago.

21 The leaders responsible for development in these

22 attractive communities are well informed on topics

23 that range from modern techniques of fishing, fish pro-

24 cessing, international monetary policies affecting fish

25 marketing, through to community planning. They

26 recognize the need for and frequently urge scientific

27 research programs for their fishing industry. They

28 can and do take their places at Maritime and national

29 levels to speak fluently and confidently about topics

30 affecting their social and economic destinies. These



1 are persons to whom the reality of self-help programs
2 was demonstrated in simple study groups leading to
3 credit union and co-operative development.

4 37. The credit union approach to problems of
5 people involves study and planning followed by
6 intelligent individual and group action. It has proven
7 itself to be valuable in too many instances to allow
8 it to be regarded lightly. This is a financial
9 institution that is prepared to provide programs
10 of information for its patrons. In fact, failure
11 to do so will mean its decline. Credit unions want
12 people to be informed. One proof of this fact is to be
13 found in the policy of credit unions to disclose the
14 true cost of the credit it provides.

15 38. We recognize that, through the years, banks
16 of our country have provided credit for some of our
17 people at reasonable rates of interest. But we
18 deplore the continued existence of so many high-cost
19 consumer credit sources. We deplore having our people
20 deceived by any and all financial institutions that fail
21 to inform the borrower about the significant and basic
22 fact of the price they are paying for credit service.
23 It is important that all financial institutions become
24 concerned with the important task of developing people,
25 with raising living standards on the solid ground
26 provided by informed people.

27 39. The total assets of credit unions are perhaps
28 unimpressive but it is difficult to challenge the role
29 of these organizations in quickening intelligence and
30 in providing challenges to toughen the moral fibre



are persons to whom the reality of self-help programs

is not understood. It is not understood that the

self-help programs are not a magic formula

which will automatically solve the problems of

the community. It is not understood that the

self-help programs are not a substitute for

the need for a comprehensive social policy.

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of these organizations in developing intelligence and

involving challenges to strengthen the moral fibre



1 of our people.

2 40. From a purely economic point of view,
3 credit unions contribute directly to communities through
4 distribution of surplus funds. This is a non-profit
5 organization. Surplus income is returned directly
6 to members as interest on savings and, in some
7 cases, as patronage rebates.

8 41. A recent edition of The Maritime Co-operator,
9 a bimonthly publication for Maritime co-operative news
10 and information, published a story of credit union and
11 co-operative action in one community. It will perhaps
12 serve to illustrate one instance of the social impact
13 of credit unions:

14 New Waterford -- This mining community
15 can testify in a unique way to the contribution
16 which co-operative and credit union movements
17 have made to the community over a quarter of a
18 century. Citizens of the town who have twice
19 seen co-operative and credit union organizations
20 come to the aid of town capital borrowing
21 projects which didn't appeal to the usual
22 financial institutions, have reason to rate
23 the people's movement as outstanding social
24 forces for good in the community of eleven
25 thousand.

26 The town's credit was good and its
27 financial position was sound but like most
28 mining towns it was definitely a single industry
29 community wholly dependent on the fortunes
30 of the two mines within its limits and a



1 neighboring colliery.

2 Leaders in the town's co-op and credit
3 union appealed to by the late Mayor P.G.
4 Muise, put their institutions fully behind
5 the town borrowing which they as citizens
6 and close students of the economic scene
7 recognized as sound investment. The New
8 Waterford Credit Union took \$80,000 in bonds,
9 the Dosco Credit Union and New Waterford
10 Co-operative each took \$5,000 and with the
11 impetus given the bond sale by these purchases,
12 other purchasers came forward to take up the
13 balance of the issue. In all, three new
14 junior-senior high schools were built in the
15 program. The lesson of the value of credit
16 unions wasn't lost on the students of the new
17 schools. When the local credit union organized
18 a school credit union program in the town
19 and county area three years ago, some 2,500
20 students joined up and have since piled up
21 \$14,000 in savings.

22 With the lesson well learned as to civic
23 interest by co-operative groups, the town
24 fathers knew where to go for support when
25 their latest borrowing -- for a new civic
26 hospital -- ran into rough going in the
27 marketplace.

28 Almost one third of the \$300,000 was
29 taken up by institutions like the local credit
30 union, Nova Scotia Credit Union League, Co-op



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Nethercut & Young

Toronto, Ontario

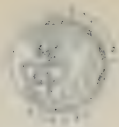
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1 Life Insurance Company, and Co-op Fire
2 Insurance. They respectively took up \$22,000,
3 \$19,000, and \$22,000 in bonds. Other
4 institutions close to the community -- churches,
5 a relief society, and some local private
6 individuals, took other bonds before a regular
7 bond house, apparently struck with second
8 thoughts about the soundness of the issue
9 after seeing the faith of those most
10 acquainted with the institution, came through
11 to take the small remaining block of bonds.

12 Civic authorities have come to have a
13 high respect for the well-directed, if small,
14 financial power of co-op institutions which,
15 combined with a social sense, has twice
16 served the town well. New Waterford has been
17 closely associated with development of co-ops
18 and credit unions, both of which came to the
19 town in dark depression days under spirited
20 leaders of St. Francis Xavier Extension
21 Department..

22 With the aid of workers from the same
23 Department, the town built its first co-op
24 housing development -- ten homes, fifteen
25 years ago and within the past three years,
26 despite threat of mine closures, four new
27 groups totalling forty homes in all, have
28 been started and completed.

29 42. A credit union can be as flexible in its
30 service to the community as the needs of that community
determine, and as sound business management will permit.



Life Insurance Company, and Co-op Five Insurance. They respectively took up \$22,000.

Individuals, took other bonds before a regular bond house, apparently struck with second thoughts about the soundness of the issue after seeing the rash of those more

Civic authorities have come to have a high respect for the well-directed, it would, financial power of co-op institutions which, combined with a social sense, has twice served the town well. Now Watford has been closely associated with development of co-op and credit unions, both of which came to the town in dark depression days under spirited leadership of St. Francis Xavier Extension

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A credit union can be as flexible in its service to the community as the banks of the community



1 Each organization, within standard credit union
2 legislation, is autonomous. If, as in the case of
3 several communities, facilities for a community library,
4 for example, are required, the credit union conveniently
5 provides space for this purpose. Numerous credit
6 unions annually provide scholarships, and in many
7 specific instances, rise to meet many and varied
8 community needs.

9
10 CONCLUSION

11 43. We want to thank you, Mr. Commissioner, for
12 giving our Extension Department the opportunity to
13 present reasons for our part in promoting credit
14 unions. We regard the Credit Union Movement as an
15 instrument of social reform, a means of bringing
16 social justice into our economic development. It is
17 a method of bringing information to people while
18 permitting them a place in the control of their own
19 social and economic lives. While being a group
20 effort, credit union activity develops individual
21 self-expression. It is a program of thought and
22 action, permitting ownership and scope for creative
23 thinking. As we have shown, it is a very effective
24 tool in teaching people many basic ideas through
25 action.

26 44. We are accused of emphasizing the economic.
27 We do not apologize for it. Economic activity is not
28 merely a means of enriching those engaged in it. It
29 has a social and educational function of supplying
30 commodities, services and information to the
community. Credit union organizations usually succeed



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Conclusion

giving our Extension Department the opportunity to present reasons for our part in promoting credit unions. We regard the Credit Union Movement as an instrument of social reform, a means of bringing social justice into our economic development. It is a method of bringing information to people with permitting them a place in the control of their own social and economic lives. While being a group effort, credit union activity develops individual self-expression. It is a program of thought and action, permitting ownership and scope for creative thinking. As we have shown, it is a very effective tool in teaching people many basic ideas through action.

44. We are accused of emphasizing the economic. We do not apologize for it. Economic activity is not merely a means of enriching those engaged in it. It has a social and educational function of supplying commodities, services and information to the community. Credit union organizations really succeed



1 in projecting membership vision, far beyond the narrow
2 and obvious advantages to a much wider concern.

3 45. Credit unions are an essential part of
4 the program of the Antigonish Movement to help free
5 people raise their standards, promote economic
6 democracy, and in the process, develop themselves
7 more fully as intelligent citizens; thus taking
8 a great stride towards being masters of their own
9 destiny.

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11
12
13 46. The many people who, unsolicited, have
14 come and continue to come from many lands to St.
15 Francis Xavier University, and its recent addition,
16 the Coady International Institute, are an eloquent
17 testimony that this program is workable throughout
18 the world. This aspect of the program of the Extension
19 Department presents a fascinating picture which might
20 well be the best indication of the vital importance
21 of the program, but we have decided against developing
22 it since it does seem beyond the terms of reference
23 of this Brief.

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30



BRIEF BY THE CANBOROUGH CORPORATION

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2
3
4 1. The Canborough Corporation, incorporated
5 as a Loan Company under the Loan and Trust Corporations
6 Act of Ontario, has been formed for the purpose of
7 holding mortgage loans insured under the National
8 Housing Act 1954.

9 2. In its maturity, Canborough will be an
10 active buyer and seller of N.H.A. mortgages and it is
11 intended that the Corporation will make a substantial
12 contribution to the liquidity of the secondary mortgage
13 market. It was formed by a group of Canadian institut-
14 ions and corporations who are interested in, and
15 recognize the need for, such new institutions in
16 Canada.

17 3. Our submission is concerned with the fact
18 that it is desirable that a liquid secondary market
19 in N.H.A. mortgages be developed, and that encourage-
20 ment be given to the formation and activities of new
21 mortgage institutions such as The Canborough Corporation.
22 This Company was registered to do business only a
23 matter of weeks ago and as a result we regret that
24 there has not been sufficient time to amass the
25 statistical data that would be necessary for a full
26 and comprehensive brief. This brief is therefore
27 relatively short and is concerned only with the
28 fundamental arguments. For this reason we felt it
29 would be merely repetitious to preface it with a
30 summary.



4. An analysis of insured mortgages has to recognize that while there is a powerful attraction in view of a relatively high yield and good underlying credit, as a security they have many intrinsic defects. The main defects are, of course, their illiquidity resulting from the lack of a secondary market, the absence of call protection, inasmuch as the borrower may repay his mortgage prior to maturity; and the fact that the mortgages have to be serviced by either Central Mortgage and Housing Corporation or an approved lender. The difficulty of accurately forecasting the maturity makes it impossible to arrive at an exact calculation of the yield if the price is above or below par. In the case of mortgages that are serviced by C.M.H.C., the yield problem is further complicated by the difficulty of relating C.M.H.C. servicing costs to a yield basis. While these are perhaps the main drawbacks, from the point of view of an investor who is not already familiar with holding mortgages, there are undoubtedly minor disadvantages such as a relatively clumsy documentation, the problems which arise during the recovery process in the case of a claim on the insurance fund, and the problems of proper accounting.

5. Historically, mortgages have been regarded as suitable investments only for those long term institutional lenders for whom their relative illiquidity has not been an over-riding drawback, principally the insurance companies and pension funds. This has resulted in an insufficient flow of money into mortgages although investment into this area is a vital economic and social

analysis of insured mortgages are to

recognize that while there is a powerful attraction in view of a relatively high yield and good underlying credit, as a security they have many intrinsic defects. The main defects are, of course, their illiquidity resulting from the lack of a secondary market, the absence of call protection, inasmuch as the borrower may repay his mortgage prior to maturity; and the fact that the mortgages have to be serviced by either Central Mortgage and Housing Corporation or an approved lender. The

difficulty of accurately forecasting the future value of the property is another factor which makes it impossible to arrive at an exact calculation of the yield. In the case of mortgages that are serviced by C.M.H.C., the yield problem is further complicated by the difficulty of valuing C.M.H.C. servicing costs to a yield basis. While these are perhaps the main drawbacks, from the point of view of an investor who is

unfettered by minor disadvantages such as a relatively clumsy documentation, the problems which arise during the recovery process in the case of a claim on the mortgage are of course of great importance. Historically, mortgages have been regarded

as suitable investments only for those long term institutional lenders for whom their relative illiquidity has not been an over-riding drawback, principally the insurance companies and pension funds. This has resulted in an insufficient flow of money into mortgages although



1 need. In other words, there has been a gap in the
2 country's structure which is only beginning to be
3 closed.

4 6. The existence of this gap has forced C.M.H.C.
5 into greater direct lending activities than was
6 originally envisaged. Our impression is that the
7 original thinking behind the Housing Acts and the
8 formation of C.M.H.C. was to encourage and assist
9 existing or potential mortgage lenders to expand their
10 activities.

11 7. In discussing the market for insured loans
12 in his book, "Canadian Mortgages", Mr. H. Woodard stated
13 "by statutory concept, C.M.H.C. was not established
14 for the prime purpose of making, buying or selling
15 loans", and he commented subsequently that "As a result
16 of the lack of funds from normal sources, the Corporation
17 in 1958 had been thrust into the role of a substantial
18 N.H.A. lender instead of occupying its contemplated
19 position as a residual lender. It would seem imperative
20 that some other sources of funds be found to eliminate
21 continued governmental investment."

22 8. It would appear that the solution to this
23 problem is to bring a measure of liquidity to N.H.A.
24 mortgages through the encouragement of a secondary
25 market; and to encourage the development of new
26 institutions whose principal activities would be in
27 the secondary mortgage market, and who would attract
28 new sources of capital.

29 9. The development of the secondary market
30 to the extent that it improves fluidity will encourage



1 lenders to increase their holdings in mortgages and
2 will attract to the mortgage field new buyers who
3 have previously avoided investment on account of
4 illiquidity. The decision in May, 1961, by C.M.H.C.
5 to begin a series of offerings of mortgages through
6 tenders was certainly a constructive step. As a result
7 it can be said that a start has been made in the
8 development of a secondary market in this country.
9 Although most of the mortgages offered by tender were
10 purchased by investors whose intention was to make a
11 long term investment, some trades have been made
12 between institutions without any relation to a specific
13 tender by C.M.H.C.

14 10. The decision to allow investment dealers to
15 tender for mortgages was also an important step forward.
16 The fact that N.H.A. mortgages are presently unfamiliar
17 and unusual to many lenders, other than institutional
18 lenders, is not fundamental and investment dealers
19 have a role to play in overcoming this. So far
20 relatively few investment dealers have taken an interest
21 in N.H.A. mortgages and C.M.H.C. should encourage more
22 dealers to take an interest. C.M.H.C. has already
23 held conferences in both Montreal and Toronto primarily
24 for the purpose of clearing up problems and answering
25 questions that dealers and other investors may have.
26 Further public relations work of this kind should be
27 carried out.

28 11. The fact that mortgages must be serviced
29 by an approved lender has had and will have an effect
30 on the liquidity of any market that can be achieved.

to increase their holdings in mortgages and will attract to the mortgage field new buyers who have previously avoided investment on account of the uncertainty of the market. The bank is planning to begin a series of offerings of mortgages through tenders was certainly a constructive step. As a result it can be said that a start has been made in the development of a secondary market in this country. Although most of the mortgages offered by tender were purchased by investors whose intention was to make a long term investment, some trades have been made between institutions without any relation to a specific tender by C.M.H.C.

10. The decision to allow investment dealers to tender for mortgages was also an important step forward. and unusual to many lenders, other than institutional lenders, is not fundamental and investment dealers have a role to play in overcoming this. So far relatively few investment dealers have taken an interest in N.H.A. mortgages and C.M.H.C. should encourage more dealers to take an interest. C.M.H.C. has already held conferences in both Montreal and Toronto primarily for the purpose of clearing up problems and answering questions that dealers and other investors may have. Further public relations work of this kind should be done.

11. The fact that mortgages must be serviced by an approved lender has had and will have an effect on the liquidity of any market that can be developed.



1 12. At present C.M.H.C. charges a flat fee of
2 \$2.75 per month per mortgage for servicing. This
3 differs from the way that private institutions price
4 their servicing, normally as a percentage of outstanding
5 principal amounts of the mortgage.

6 13. There is a variety of different types of N.H.A.
7 mortgages. To a large extent this is and will continue
8 to be unavoidable with resultant differentials in
9 servicing costs. However, certain differences that
10 exist appear capable of elimination. For instance,
11 the existence of both 100 per cent and 98 per cent
12 insured mortgages in the secondary market could create
13 difficulties. It would seem advisable that consideration
14 be given to C.M.H.C. retroactively insuring all 98
15 per cent mortgages to 100 per cent. Since all 98
16 per cent insured mortgages have been outstanding
17 for several years, the likelihood of any loss due to
18 foreclosure is diminishing fairly rapidly and it should
19 not prove a costly move on the part of C.M.H.C.

20 14. We consider that the most effective impetus to
21 the development of a secondary market in mortgages would
22 be given by the formation of new private institutions
23 such as The Canborough Corporation whose prime function
24 will be to own and trade in N.H.A. mortgages and issue
25 in its own name the full range of familiar corporate
26 securities, secured against insured mortgages. Such
27 corporations will be capable of channelling large
28 sources of money into the mortgage finance field, and
29 will play an important role in developing a secondary
30 market in time standing ready not only to buy mortgages



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14. We consider that the most effective impetus to

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in its own name the full range of familiar corporate

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will play an important role in developing a secondary



1 but to offer them on a continuing basis to other
2 buyers.

3 15. An alternative to the development of such
4 corporations could be a vast expansion in the size
5 and operation of C.M.H.C. Thus C.M.H.C. would have
6 to stand ready at all times to buy and sell mortgages
7 and the question would arise as to whether or not
8 it should finance its portfolio by issuing its own
9 obligations to the public.

10 16. Such issues could be either direct Government
11 guarantees or obligations of C.M.H.C. with an implied
12 Government guarantee; but it would be natural for
13 other Crown Corporations to finance in a similar manner
14 and central control of such financing would become
15 increasingly difficult. Inevitably conflicts of
16 interest would arise amongst both the financing
17 corporations, and the Government's own fiscal and monetary
18 policies.

19 17. If Crown Corporations issue their own
20 obligations, which might be said to carry an implied
21 Government guarantee, the situation could be even more
22 difficult. Central control would become harder, there
23 would be real differences in credit between the different
24 corporations which would affect their rates, and there
25 would certainly be legal problems which would require
26 changes in a variety of legislation to permit the
27 purchase of such obligations. Such changes were
28 necessary in the case of N.H.A. mortgages themselves.

29 18. If it is decided that the role of C.M.H.C.
30 in financing the Nation's mortgages is to be continued

basis to other

buyers.

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corporations could be a vast expansion in the size

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changes in a variety of legislation to permit the

purchase of such obligations. Such changes were

necessary in the case of N.H.A. mortgages themselves.

18. It is decided that the role of C.M.H.C.



1 and expanded, the most desirable method of providing
2 the corporation with funds would be a continuance of
3 the present system whereby the Government raises debt
4 directly and lends it to C.M.H.C. However, this
5 presumes that it is a proper function of the Government
6 to finance mortgages in this country. To the extent
7 that it is desirable to have public participation in
8 the ownership of mortgages, a route other than through
9 Government financing would have to be found.

10 19. More fundamental than such technical reasons
11 is the fact that in a country whose basic tenet is a
12 belief in the private enterprise system, it would seem
13 that the Government's role in commerce and industry should
14 be that of encouraging private institutions to perform
15 those functions which they can prudently carry out,
16 while Government should accept those risks that cannot
17 be considered economic.

18 20. We take the view that the role of the C.M.H.C.
19 should be principally in that area that is outside
20 the field of commercial business, particularly insofar
21 as its direct lending activities are concerned. These
22 should be increasingly restricted to loans on municipal
23 and other projects which are socially necessary and
24 require special rates.

25 21. C.M.H.C. should perform two important functions
26 which would assist the development of a secondary
27 market and which would not require additional permanent
28 capital. It should act as a lender of last resort to
29 assure funds, perhaps at a penal rate to institutions
30 such as The Canborough Corporation who are active in the



and expanded, the most desirable method of providing the corporation with funds would be a continuance of the present system whereby the Government raises debt directly and lends it to C.M.H.C. However, this presumes that it is a proper function of the Government to finance mortgages in this country. To the extent that it is desirable to have public participation in the ownership of mortgages, a route other than through Government financing would have to be found.

19. More fundamental than such technical reasons is the fact that in a country whose basic tenet is a belief in the private enterprise system, it would seem that the Government's role in commerce and industry should be that of encouraging private institutions to perform those functions which they can prudently carry out, while Government should accept those risks that cannot be considered economic.

20. We take the view that the role of the C.M.H.C. should be principally in that area that is outside the field of commercial business, particularly insofar as its direct lending activities are concerned. There should be increasingly restricted to loans on municipal and other projects which are socially necessary and require special rates.

21. C.M.H.C. should perform two important functions which would assist the development of a secondary market and which would not require additional permanent capital. It should act as a lender of last resort to assure funds, perhaps at a penal rate to institutions such as The Canborough Corporation who are active in the



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1 secondary market; and should act to assure a continuing
2 supply of mortgages into the market through continuing
3 sales from their own portfolio.

4 22. The remainder of the submission is devoted
5 to an examination of the various roles played by
6 existing institutions and their relationship with new
7 institutions such as The Canborough Corporation.

8 23. Life insurance companies are by their nature
9 long term buyers and are an important source of mortgage
10 money. Most are approved lenders capable of originating
11 and servicing their own holdings. Their investment
12 portfolios being long term tend to be relatively
13 inactive and these institutions are not the logical
14 developers of a secondary mortgage market. However
15 the life companies will undoubtedly benefit by the
16 development of a liquid market which may well in time
17 induce them to extend their mortgage holdings by putting
18 more of their funds into insured mortgage loans.

19 24. The pension funds have been and will be major
20 buyers of mortgages. One main investment requirement
21 is as high a return on invested capital as is consistent
22 with maximum safety. It is apparent that many pension
23 funds have not yet purchased mortgages and some are still
24 prohibited by their By-laws from doing so. These funds
25 are growing rapidly and are becoming an increasingly
26 important source of national capital; in the future
27 they should be encouraged to buy mortgages.

28 25. The trust companies have well developed
29 mortgage departments and they administer a great many
30 pension funds, and these and their Guaranteed Funds



secondary market; and should act to assure a continuing supply of mortgages into the market through continuing sales from their own portfolio.

22. The remainder of the submission is devoted to an examination of the various roles played by existing institutions and their relationship with new institutions such as The Gannborough Corporation.

23. Life insurance companies are by their nature long term buyers and are an important source of mortgage money. Most are approved lenders capable of originating and servicing their own holdings. Their investment portfolios being long term tend to be relatively inactive and these institutions are not the logical developers of a secondary mortgage market. However the life companies will undoubtedly benefit by the development of a liquid market which may well in time induce them to extend their mortgage holdings by putting more of their funds into insured mortgage loans.

24. The pension funds have been and will be major buyers of mortgages. One main investment requirement is as high a return on invested capital as is consistent with maximum safety. It is apparent that many pension funds have not yet purchased mortgages and some are still prohibited by their By-Laws from doing so. These funds are growing rapidly and are becoming an increasingly important source of national capital; in the future they should be encouraged to buy mortgages.

25. The trust companies have well developed mortgage departments and they administer a great many pension funds, and these and their Guaranteed Funds



1 are a large source of capital for N.H.A. mortgages.
2 Trust companies, through their mortgage departments,
3 both originate and service N.H.A. mortgages. The
4 mortgages they originate are in part for their Guaranteed
5 account and for funds under their administration. Their
6 role then is to originate and sell mortgages to buyers
7 for whom they have specifically acted. While this is an
8 important source of funds for N.H.A. mortgages, it does
9 not substantially contribute to creating a mortgage
10 market. We feel that the trust companies' role would
11 be enlarged if they and other approved lenders were
12 specifically permitted to charge a fee to the lender
13 for originating mortgages as an agent on behalf of
14 the lender.

15 26. The Investment Dealers' role is purely
16 in the secondary market and it has not as yet become
17 very large. It is hindered to some extent by their
18 inability to bank N.H.A. mortgages in the chartered
19 banking system, but other sources of interim
20 accommodation are available. We can foresee Dealers
21 playing an increasingly large part in the secondary
22 market; a role that would be complementary rather
23 than competitive with new mortgage institutions.

24 27. The role of the chartered banks in mortgage
25 lending is an interesting subject. During the early
26 part of the last decade when the shortage of available
27 funds for mortgage loans became apparent, the necessary
28 legislation was passed, and the banks were urged to
29 participate actively in the mortgage field. From 1954
30 to 1959 the banks played a major role in new home



Trust companies, through their mortgage departments, both originate and service N.H.A. mortgages. The mortgages they originate are in part for their guaranteed account and for funds under their administration. Their role then is to originate and sell mortgages to buyers for whom they have specifically acted. While this is an important source of funds for N.H.A. mortgages, it does not substantially contribute to creating a mortgage market. We feel that the trust companies' role would be enlarged if they and other approved lenders were specifically permitted to charge a fee to the lender for originating mortgages as an agent on behalf of the lender.

26. The Investment Dealers' role is purely in the secondary market and it has not as yet become very large. It is hindered to some extent by their inability to bank N.H.A. mortgages in the chartered banking system, but other sources of interim accommodation are available. We can foresee Dealers playing an increasingly large part in the secondary market; a role that would be complementary rather than competitive with new mortgage institutions.

27. The role of the chartered banks in mortgage lending is an interesting subject. During the early part of the last decade when the shortage of available funds for mortgage loans became apparent, the necessary legislation was passed, and the banks were urged to participate actively in the mortgage field. From 1934 to 1939 the banks played a major role in new home



1 financing and only ceased when the N.H.A. rate
2 exceeded the bank's statutory limit of 6 per cent.
3 The chartered banks, with the most extensive system
4 of branches in the country, appear to be in an excellent
5 position to provide servicing facilities for mortgage
6 loans.

7 28. If no steps are taken to create new
8 institutions whose role would be the funnelling of
9 funds into mortgage loans and direct an active
10 participation in creating a secondary mortgage market,
11 and if a solution to this problem is to be found in
12 the realm of private enterprise as opposed to the
13 extension of C.M.H.C.'s activities, it must follow that
14 the banks will again be expected to become active in
15 this field.

16 29. The Canborough Corporation was created because
17 it was felt that the soundest solution lay in the formation
18 of a new type of institution that is specifically suited
19 to the fulfillment of this role.

20 30. Canborough is designed to be a uniquely neutral
21 institution using the services of existing institutions
22 such as banks and trust companies rather than attempting
23 to originate and service N.H.A. mortgages itself. Its
24 role in the secondary market will consist primarily
25 of trading mortgages with institutional buyers and
26 sellers in order to improve the liquidity of the market
27 and it is not designed to duplicate the services of the
28 existing institutions.

29 31. One service that corporations such as
30 Canborough would like to perform for which it appears



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extension of C.M.H.C.'s activities, it must follow that

the banks will again be expected to become active in

this field.

29. The Canbrough Corporation was created because

it was felt that the soundest solution lay in the formation

of a new type of institution that is specifically suited

to the fulfillment of this role.

30. Canbrough is designed to be a wholly neutral

institution using the services of existing institutions

such as banks and trust companies rather than attempting

to originate and service N.H.A. mortgages itself. Its

role in the secondary market will consist primarily

of trading mortgages with institutional buyers and

sellers in order to improve the liquidity of the market

and it is not designed to duplicate the services of the

existing institutions.

31. One service that corporations such as

Canbrough would like to perform for which it appears



1 evident that there is a real need, is the undertaking
2 of forward commitments to make mortgage loans. This
3 is a function that would provide a service that should
4 be differentiated from the service of providing the
5 loan itself. In other words, it should be permissible
6 for such corporations as Canborough to charge a reasonable
7 standby fee against the borrower for performing such
8 a service and that this should be recognized as such
9 and it should not be deemed that the N.H.A. loan
10 is originated at a price other than par or at a rate
11 other than the statutory rate.

12 32. Given a desired level of new residential
13 construction, it is clear that the formation of a
14 corporation such as The Canborough Corporation will
15 not result in a new and additional drain on capital
16 markets of the country. While it will attract funds
17 that normally seek corporate securities, whether debt
18 or equity, whether short or long term, the amount which
19 C.M.H C. might feel it necessary to put into this area
20 would be correspondingly reduced. By its nature and
21 in the interest of economic operation, companies such
22 as Canborough will obviously be seeking funds in that
23 area of the market where capital is most fully available
24 rather than competing with other borrowers for sources
25 where there is a current shortage of capital.

26 33. One of the principal results of the develop-
27 ment of a satisfactory secondary market in mortgages
28 could be the effect of bringing mortgage rates closer
29 to other long term rates. To the extent that this is
30 achieved, this will act against the best interest of
Canborough but at least this will mean that the



evident that there is a real need, in the undertaking of forward commitments to make mortgage loans. This is a function that would provide a service that should be differentiated from the service of providing the loan itself. In other words, it should be permissible for such corporations as Ganborough to charge a reasonable standby fee against the borrower for performing such a service and that this should be recognized as such and it should not be deemed that the N.H.A. loan is originated at a price other than par or at a rate other than the statutory rate.

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33. One of the principal results of the development of a self-sufficient market in mortgage rates could be the effect of bringing mortgage rates closer to other long term rates. To the extent that this is achieved, this will act against the best interest of Ganborough but at least this will mean that the



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1 formation of The Canborough Corporation was
2 justified.

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APPENDIX

SUMMARY OF RECOMMENDATIONS

Recommendation 1 - Ref. Page 3, Paragraph 13. C.M.H.C. should consider retroactively insuring all N.H.A. mortgages to 100 per cent.

Recommendation 2 - Ref. Page 4, Paragraphs 16 and 17 and 18. C.M.H.C. should not issue debt directly to the public.

Recommendation 3 - Ref. Page 5, Paragraph 20. C.M.H.C.'s direct lending should be restricted to that area that is outside the field of commercial business.

Recommendation 4 - Ref. Page 5, Paragraph 21. C.M.H.C. should be prepared to act as a lender of last resort to assure funds to institutions who are active in the secondary market.

Recommendation 5 - Ref. Page 5, Paragraph 21. C.M.H.C. should be prepared to continue providing mortgages for the secondary market through sales from its own portfolio.

Recommendation 6 - Ref. Page 6, Paragraph 25. Approved lenders should be permitted to charge a fee to the ultimate buyer for acting as agent in originating mortgages.

Recommendation 7 - Ref. Page 7, Paragraph 31. Approved lenders should be permitted to charge a standby fee to the borrower for undertaking forward commitments.



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